# INVESTIGATING THE APPROPRIATENESS OF CONSOLIDATION LOANS TO MITIGATE HOUSEHOLD OVER-INDEBTEDNESS IN SOUTH AFRICA

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## DECLARATION

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# ABSTRACT

Household over-indebtedness has increased in South Africa, raising concerns over the socio-economic conditions of the middle class. Research shows that an increase in unsecured credit is not directly related to consumption and economic growth, but to the use of credit to pay credit through consolidation loans. Consolidation loans are driven by aggressive marketing that takes advantage of naïve consumers. This study was aimed at investigating the appropriateness of consolidation loans as a debt solution. Instead, it locates the subjective figure that emerges from the debtor-creditor relationships under financial capitalism and neoliberalism, "the indebted man" The indebted man lives precariously, consumes beyond his means and his behaviour is shaped by the economic systems that he lives under. The use of consolidation loans as a debt solution is a manifestation of the structural indebtedness of the lived experience of the indebted man. To highlight this, a mixed-method research methodology used literature review, purposive sampling of 50 consolidation loan-seeking consumers, 10 financial consultants from IDM Group, and content analysis of consolidation loan marketing messages on credit providers' websites.

The results indicated that consolidation loan practices constitute predatory lending, which exacerbates household over-indebtedness. Predatory practices are evident in one-sided consolidation loan marketing that overemphasises the benefits of consolidation loans while downplaying the downsides of consolidation loans.  The term "consolidation loan" is problematic in that there are several practices of consolidation lending. These include loan top-ups, advance accounts from Standard Bank, credit switch from FNB, and large long-term personal loans from Capitec, African Bank, Direct Axis, Bayport, and ABSA. Marketing of consolidation loans benefits from low-debt literacy demonstrated by loan seekers. Consolidation loans cause more debt, not less, because they result in new costs, and higher interest rates than less interest rates, increases in the terms of payment, and they affect affordability over a long period of time. This constitutes financial exclusion, exposing consumers to high-risk loans (Payday loans and Loan Sharks) and prohibits individuals from accessing meaningful credit (home loans and vehicle finance). These practices are worsening the socio-economic conditions of the middle-class by increasing inequality and poverty while presenting a barrier to debt management in South Africa. Legislative reforms are required to prevent predatory lending and improve debt literacy and household budgeting. Further research

is required to determine the role of institutions such as universities, schools, religious and financial institutions, employers, trade unions and political parties in mitigating household over-indebtedness.

## OPSOMMING

Huishoudelike oorskuld het in Suid-Afrika toegeneem, wat kommer wek oor die sosio-ekonomiese toestande van die middelklas. Navorsing toon dat 'n toename in ongesekureerde krediet nie direk verband hou met verbruik en ekonomiese groei nie, maar met die gebruik van krediet om krediet te betaal deur middel van konsolidasie-lenings. Konsolidasie-lenings word aangedryf deur aggressiewe bemarking wat voordeel trek uit naïewe verbruikers. Hierdie studie was gerig op die ondersoek na die toepaslikheid van konsolidasie-lenings as 'n skuld oplossing. In plaas daarvan word die subjektiewe figuur opgespoor wat na vore kom uit die skuldenaar-skuldeiser-verhoudings onder finansiële kapitalisme en neoliberalisme, 'die skuldige man'. Die gebruik van konsolidasie-lenings as 'n skuld oplossing is 'n manifestasie van die strukturele skuld van die geleefde ervaring van die skuldige man. Om dit uit te lig, het 'n navorsingsmetodiek vir gemengde metodes literatuuroorsig gebruik, doelgerigte steekproefneming van 50 konsoliderende lening soekende verbruikers, 10 finansiële konsultante van IDM Groep en inhoudsanalise van bemarking boodskappe vir konsolidasie-lening op kredietverskaffer se webwerwe.

Die resultate het aangedui dat die konsolidasie-leningspraktyke buitengewone lenings is, wat die oorskuld van huishoudings vererger. Roof praktyke is duidelik in die bemarking van eensydige konsolidasie-lenings wat die voordele van konsolidasie-lenings te veel beklemtoon, terwyl die nadele van konsolidasie-lenings afgemaak word. Die term 'konsolidasie-lening' is problematies deurdat daar verskillende praktyke is vir konsolidasie-uitleen. Dit sluit in aanvullings op lenings, voorskot rekeninge van Standard Bank, krediet wisseling van FNB en groot langtermyn persoonlike lenings van Capitec, African Bank, Direct Axis, Bayport en ABSA. Die bemarking van konsolidasie-lenings vind baat by lae-skuld geletterdheid wat lening soekers toon. Konsolidasie-lenings veroorsaak meer skuld, nie minder nie, omdat dit nuwe koste tot gevolg het, hoër rentekoerse as laer rentekoerse, stygings in die betalingsvoorwaardes, en dit beïnvloed bekostigbaarheid oor 'n lang tydperk. Dit behels finansiële uitsluiting, wat verbruikers blootstel aan hoërisikolenings (Payday-lenings en Loan Sharks) en verbied individue om sinvolle krediete (huislenings en voertuig finansiering) te verkry. Hierdie praktyke vererger die sosio-ekonomiese toestande van die middelklas deur toenemende ongelykheid en armoede, terwyl dit 'n versperring vir skuld bestuur in Suid-Afrika bied. Wetgewende hervormings is nodig om roof lenings te voorkom en skuld geletterdheid en huishoudelike begroting te verbeter. Verdere navorsing is nodig om die rol van instellings soos

universiteite, skole, godsdienstige en finansiële instellings, werkgewers, vakbonde en politieke partye in die versagting van huishoudelike huishoudings te bepaal.

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# LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ANC | African National Council |
| ANC | Antenuptial Contract |
| CCI | Consumer Credit Index |
| CCMR | Consumer Credit Market Report |
| COP | Community of Property |
| FNB | First National Bank |
| GDP | Gross Domestic Product |
| IDM | Intelligent Debt Management |
| LCH | Life-cycle Hypothesis |
| LLR | Larger Later Reward |
| NCA | National Credit Act |
| NII | Net Indebtedness Index |
| NCR | National Credit Regulations |
| PIH | Permanent Income Hypothesis |
| RIH | Relative Income Hypothesis |
| SAHRC | South African Human Rights Commission |
| SARB | South Africa Reserve Bank |
| SSR | Smaller Sooner Reward |
| UK | United Kingdom |
| UN | United Nations |
| USA | United States of America |
| VECM | Vector Error Correlation Model |

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# CHAPTER 1
# INTRODUCTION AND BACKGROUND

## 1.1 INTRODUCTION

Aggressive marketing of consolidation loans by financial institutions raises questions about the appropriateness of such loans to mitigate household over-indebtedness. Consolidation entails combining multiple debt obligations into a single, effective, and more coherent debt package that gets managed accordingly (Williams, 1999). Consolidation loans range between 60 and 84 months, as noted in the research sample (discussed in later chapters). As a concept, consolidation is attractive yet complex in its application. Consolidation loans are assumed to reduce monthly repayments, offer lower interest rates while giving the convenience of one monthly payment. It will be argued that consolidation loans present a personal finance myth that feeds off consumer ignorance (Standing, 2016; Loke and Hageman, 2013; Lusardi and Tufano, 2009). The desire to manage unmanageable debt results in consumers seeking short term solutions without considering the risks and costs of solutions. Consolidation loans create an illusion of hope and a fixation to the idea of one loan for consumers who are desperate to improve their financial situation. Having one huge loan to settle multiple debts is assumed to solve the challenges presented by having multiple credit providers.

This thesis questions the appropriateness of consolidation loans to mitigate household over-indebtedness begins with asking: ***Can debt pay off debt using consolidation loans?*** Following this question, an overarching question is stated in Section 1.4 where I set out the questions to be answered by this research. Considering that consumers seeking consolidation loans are professionals including bank employees, government employees, accountants, engineers, teachers, and university lecturers, to name a few, there is surely more than poverty drivers to the search of consolidation loans. Using this narrative, I argue for psychological drivers of household over-indebtedness that are systemic to financial capitalism under a neoliberal economic model. To best explain this, I turn to the creation of subjectivity and the subjective character; the indebted man (Lazzarato, 2012). The search for consolidation loans is more "wants" than "needs" driven, which proves that this kind of debt is more psychologically than by poverty-driven (Zakaria, Jaafar and Ishak, 2018).

It will be argued and demonstrated that consolidation loans are mechanisms that credit providers use to sustain exploitative, parasitic, and predatory practices (Parfitt, 2016).

Predatory lending has continued unabated in South Africa in face of the drive towards prevention of reckless lending, which was marked as a milestone in the South African Credit market (James, 2014). It makes sense to monitor reckless lending as stipulated by the National Credit Act 34 of 2005 (NCR, 2006). This rhetoric has somehow justified predatory lending including the practice of consolidation loans (Schmulow, 2016). The marketing of loans to pay debts to become debt-free or loans to settle debts is common in South Africa (Fakoti and Oni, 2014). These loans shift debt burdens into the future instead of addressing household indebtedness. The marketing of these loans tends to over-emphasise the benefits, while ignoring their costs, risks, and responsibilities (Bolton, Bloom and Cohen, 2011; Molden and Dweck, 2006; Williams, 1999).

To link the well-known discussion about debt fuelling inequality, unemployment, poverty and the less studied problem of indebtedness, the notion of precarity will be drawn from Standing's work (Standing, 2016). South Africa's over-indebted subjects are essentially the core of what Standing calls the "precariat". I merge the precariat with Lazzarato's "making of the indebted man", who argues that debt is the crux where morality and economics intersect (Lazzarato, 2012). With that in mind, one could argue in line with debtfarism (Soederberg, 2014), while acknowledging the notion that debt nullifies politics by seeing the future as the forecast of current exploitation and domination that exists with the creditor-debtor relationship (Callison, 2014; Johnson, 2014). In South Africa, where the majority of the working class does not qualify for home loans and vehicle finance, the domination of unsecured debts has taken another turn to perpetuate debt traps by introducing consolidation loans – simply put, loans to pay loans.

To emphasise the role of ignorance in consumer exploitation by financial institutions, I acknowledge the work of Lusardi and Tufano (2009) on debt literacy. Their work provokes consumer understanding of the basic principles of credit, such as compound interest (Lusardi and Tufano, 2009). In Chapter 4, I discuss the credit subsectors in South Africa. It is concluded that consolidation loans are classified as consolidation loans are unsecured credit agreements (NCR, 2016). This is useful to demonstrate that the use of consolidation loans to settle credit cards, retail accounts and asset raises the overall interest costs.

This study seeks to confront debt repayment burdens faced by South African households and the marketing of consolidation loans. Most studies focus on household over-indebtedness without interrogating perceived debt solutions. This research focuses on the perceived role of consolidation loans in mitigating household over-indebtedness. To achieve this, I focus on consumer perceptions and seeking to understand what informs the perceptions. To demonstrate that consolidation loans are not a debt solution, Chapter 4 identifies the classification of consolidation loans as unsecured credit agreements. This is done to demonstrate the cost of consolidation loans compared to other loans that are assumed to be solved by consolidation loans. Using consumers' responses, I investigate consolidation loans marketing by tracing the marketing of consolidation loans on credit provider websites. The language used is traced with the literature on the downside of consolidation loans to demonstrate how credit providers use attractive language to hide the pervasive nature of consolidation loans.

I am employed as a Senior Financial Consultant at Intelligent Debt Management (IDM) Group. My concern over the level of over-indebtedness has a direct impact on my work as a registered debt counsellor, NCRDC2995. I began to worry about the effects of consolidation loans on people's lives. Consumers often express their wish to escape their debt situation through a consolidation loan. Direct interaction with financially strained consumers gave me insight into household over- indebtedness in South Africa. I engage with an average of 120 consumers seeking consolidation loans every month. This gave me insights into consumer perspectives of consolidation loans.

The literature on over-indebtedness assisted me with problem formulation. In doing this, I consulted the following literature: *Debt as Power* (Di Muzzio and Robbins, 2016), *Lending and Borrowing in South Africa* (James, 2014); Lazzarato, *The Making of the Indebted Man* (Lazzarato, 2014), *Debt the First 5000 Years* (Graeber, 2011), *Birth of Biopolitics* (Foucault, 2008) and *Debtfarism* (Soederberg, 2014) among others, and discovered that limited literature on consolidation loans exists (Bolton *et al*., 2013; Williams, 1999). He applied knowledge from several modules completed in the BPhil Sustainable Development Planning and Management programme, including Complexity and Systems Thinking, Leadership and Ethics and Sustainable Development, and believes that debt may be the most over-looked sustainability challenge of the 21st century as the attention has shifted towards ecological sustainability.

### 1.1.1 Concepts and definition of terms

Below are the terms that have been used in this research:

- **Capitalisation** – the act of discounting future income flows by investors into the present value that is adjusted with a risk factor (Antoniades, 2018; Di Muzio and Robbins, 2016)

- **Credit and debt** are used interchangeably to mean a deferred payment of money owed to a person, or a promise to defer payment (NCR, 2006).
- **Financial literacy** – the ability to use skills and knowledge to manage financial resources effectively (Stolper and Walter, 2017)
- **Financialisation** – an increase in financial motives through financial markets, financial institutions, and financial actors (Standing, 2016; Parfitt, 2016; Soederberg, 2014; Lapavitsas, 2013; Bryan, Martin, and Rafferty, 2008)
- **Debt literacy** – the ability to make simple decisions relating to debt contracts and capacity to apply simple mathematical knowledge on compound interest when borrowing and paying debts (Lusardi and Tufano, 2009)
- **Consumer** – the part to whom services or goods were sold under an incidental credit agreement, discount transaction or instalment agreement (NCR, 2006)
- **Consolidation** – combining several things into one more effective and coherent whole
- **Consolidation loan** – a big unsecured loan taken to pay several small loans (Williams, 1999)
- **Household** – either one person or multiple persons making provisions of food and other essentials for living. This demarcates resource sharing and dwelling or housing unit (Keilman, 1995).
- **Middle Class –** A social group between the working and upper classes that consists of professionals as well as businesspeople and their families.
- **Money** – the current medium of exchange, which is recognised and widely accepted in payments for goods and services (Manesa, 2006)
- **Neoliberalism** – deregulation and less state regulation on the economy placing a greater emphasis on self-regulation and free trade (James, 2014; Davies, 2014; Stockhammer, 2010)
- **Over-indebtedness** – when information available at time of determination indicates that a consumer will or is unable to satisfy on time all their debt obligations under all credit agreements to which the consumer is part to using their financial means and prospects (James, 2014; NCR, 2006)
- **Reckless credit** – relates to the failure of credit providers to carry out the financial assessment regardless of the outcome. Reckless lending can also be viewed as when a credit provider carries out the assessment.
- **The indebted man** – the subjective individual manifested in the debtor-creditor

relationship (Lazzarato, 2012)

- **The precariat** – a neologism resembled by a social class whose social existence lacks predictability and security which affects their material and psychological welfare (Standing, 2016)
- **Working-class** – a social group of unskilled and semi-skilled manual and industrial work

Responses to consolidation loan marketing consider the above concepts in investigating household indebtedness and perceived solutions. Literature explores previous work on consolidation loans, the perceived effort of debt repayment over time, discounted utility, and intertemporal choices.

## 1.2 BACKGROUND

The 2007/08 global financial crisis catalysed a profound intellectual challenge of the 21st century (Antoniades, 2018; Di Muzio and Robbins, 2016; Lazzarato, 2015; Soederberg, 2014; Lapavitsas, 2013) and highlighted the effects of unsustainable debt structures whose features were integrated into our socioeconomic systems (Soederberg, 2014; Graeber, 2013; England and Wards, 2007). The monetisation of human lives normalises living in debt (Lazzarato, 2015). Debt repayment burdens have resulted in 256 913 farmers taking their own lives in India between 1995 and 2000 (Di Muzio and Robbins, 2016). In Thailand, human trafficking to Japan and other regions resulted in a national and international sex industry worth more than US$31billion (Di Muzio and Robbins, 2016; UN, 2009). Rural Bangladesh created body bazaars that promote the selling of body parts (Di Muzio and Robbins, 2016). US student loans amount to US$1.2 trillion, where debt has been used as a factor of delaying exclusion (Soederberg, 2014). With average student loans between US$30000.00 to US$150000.00, some students will fail to settle their debts, leaving them with suicidal thoughts, while some suffer from anxiety, acute stress and depression (Di Muzio and Robbins, 2016; Standing, 2016; Davis, 2011). Debt repayment burdens affect household well-being.

The erosion of social consent by the complex dynamics of financialisation, globalisation and neoliberalism has normalised socially counter-productive processes (Antoniades, 2018; Standing, 2016; Springer, 2016; Soederberg, 2014; Lazzarato, 2014). Erosion of social consent is manifested in the relationships shaped by household over-indebtedness. The debtor-creditor relationships, which are further explained in this thesis, shapes society. Within these relationships, the counter-productive process results in the use of credit pay credit. Financialisation follows global trends characterised by an increase in financial motives through financial markets, financial institutions, and financial actors (Standing, 2016; Parfitt, 2016; Soederberg, 2014; Lapavitsas, 2013; Bryan, Martin, and Rafferty, 2008). This re-constitutes labour as a form of capital that intensifies competition and class exploitation (Soederberg, 2014; Bryan *et al*., 2008). Debt is deployed via sophisticated information technologies within the organised differential social power of capitalisation (Di Muzio and Robbins, 2016). Capitalisation is the act of discounting future income flows by investors into the present value that is adjusted with a risk factor (Antoniades, 2018; Di Muzio and Robbins, 2016). Financialisation and capitalisation were made possible when neoliberal economic policies were introduced in the 1980s.

The failures of neoliberalism manifested first in the 2007/08 financial crisis while repeating itself in the current COVID-19 global crisis (Schneider, 2018; Parfitt, 2016; Lazzarato, 2014; James, 2014; Hart and Padayachee, 2013). Neoliberalism provides the rationale for governing people, premised on market relationships and for organising economic activities that enable competition, efficiency, and choice (Lorenzini, 2018; Springer, 2016; Foucault, 2008; Larner, 2000). It replaced Keynesian welfarism, which was characterised by an interventionist role for the state in ensuring social well-being (Larner, 2000). Since the 1980s, so-called “debtfare states” have replaced welfare states and in these environments, states encouraged the middle class to depend on credit for basic subsistence needs (Parfitt, 2016; Soederberg, 2014). Debtfare states promote and subsidise the poverty industry (Soederberg, 2014).

The symbiosis between debt and discipline is a condition created under neoliberalism (Di Muzio and Robbins, 2016; Mahmud, 2014). Neoliberalism is sustained through privatisation, deregulation, and liberalism (Di Muzio, 2016; Soederberg, 2014; Larner, 2000). New legal frameworks managed to break the power of organised labour that previously underpinned Keynesian welfare state approaches (Parfitt, 2016; Soederberg, 2014; Bryan *et al*., 2009). The adoption of neoliberal economics in South Africa like other parts of the world has reshaped the role of the state. Many argue that the state is left to play an enabling role rather than a regulatory one (Springer, 2016; James, 2014; Hart and Padayachee, 2013). The marketing of consolidation loans in South Africa benefits from this changing role of the state as seen by enacting a regulation that is set out to mitigate reckless lending which may in a way justify predatory lending.

The South African government swiftly adopted neoliberalism at the dawn of independence in 1994 (Schneider, 2018). This resulted in the perpetuation of the legacies of apartheid (Schneider, 2018; Ilsup, 2017; Bouyon and Musmeci, 2016; Fakoti and Oni, 2015; Ganyaupfu, 2014; Nanziri, 2014; Schooley and Worden, 2010). The country is faced with high levels of inequality, poverty, crime, and social unrest. In this context, debt can drive many socioeconomic ills (Schneider, 2018; World Bank 2018; Hart and Padayachee, 2013). Unemployment averaged 25.71% between 2003 and 2019, with an all-time high of 31.20% in the first quarter of 2003. Poverty levels have remained persistently high with a Gini coefficient of 0.63 (World Bank, 2018). While these have been the common arguments and concerns for policymakers, little attention is given to the pervasive nature of debt on the middle class. Debt plays a role in systemic inequalities while it has continuously redefined poverty of the middle class. While some argue that debt is not the problem, but rather development (Moleko and Swilling, 2020), here I argue that debt is the problem. Using the consolidation loan argument, I argue that the growth in unsecured debt constituted by consolidation loans is detrimental to the development of the country. In fact, non-consumptive use of debt is counter-productive which does not drive consumption or development.

By focussing on household over-indebtedness, the focus shifts the argument from unemployment to the effects of debt on the employed. It is difficult not to exaggerate the extraordinary fact that the 2007/08 financial crisis was ultimately triggered by debts incurred by workers around the world to finance homeownership and consumer spending (Parfitt, 2016; Lapavitsas, 2013). Household indebtedness of 77.8% in South Africa suggests that households are spending a major portion of their income to service their debts (Koloba, 2018; Bouyon and Musmeci, 2016; Ssebagala, 2016; Ntsalaze and Ikhide, 2016). Lazzarato (2014) states that household over-indebtedness makes no distinction between the employed and the unemployed.

The debt regime rises to power where the production of private money as interest-bearing debt disciplines populations (Di Muzio and Robins, 2016; Soederberg, 2014). Debt repayment and collection by financial institutions shape financial inclusion, while it is undeniable that it has created subjectivities. Subjectivity manifests in the way consumers accumulate and service their debts. Households may experience loss of income due to retrenchment; company restructuring or change of jobs. Changes in consumption composition may be the result of an increase in the size of a family, which increases the cost of living. An additional child may result in the need to change the residential area or the amounts required for groceries, school fees and other necessities. A poor savings culture in South Africa has a detrimental effect on the management of changing financial circumstances. South Africa is characterised by a buy now pay later mentality (Maisel, 2016; Ssebagala, 2016).

Even tightly regulated credit market systems are faced with the possibility of defaults (Ssebagala, 2016; Fakoti, 2014; James, 2014) and even when consumers borrow within their means, the occurrence of unfortunate life circumstances can lead to consumers' delinquencies (Koloba, 2018). Measures taken to mitigate and alleviate consumer over-indebtedness should consider post-debt risks and aim at improving consumers' wellbeing while reducing the credit provider's risk. Preventative measures against over-indebtedness such as stringent affordability assessments and outlawing reckless lending regulations are stationary approaches that seek to determine viability at the time of borrowing (Koloba, 2018; James, 2014). They often ignore ex-post changes of circumstances and an improvement of regulatory frameworks and mechanisms towards debt relief would be fruitful (Ssebagala, 2016). There is no doubt that households are in search for ways to mitigate their level of indebtedness.

## 1.3 PROBLEM STATEMENT

The increase in household over-indebtedness is a growing concern for academia and policymakers. Debt repayment burdens may be one of the most ignored sustainability challenges of the 21st century. Debt repayment behaviour of households remains understudied in the face of rising household debts, arrears, and bankruptcy filing (Duygan and Grant, 2008). The increase in non-consumptive use of debt including the use of debt to pay debts results in an increase in the amount of debt on credit providers' books while the number of credit-active consumers remains the same. The continuous growth of unsecured long-term loans by consumers with a net income above R15 000 per month is a concern for the credit market. This phenomenon is explored in Chapter 4. Seeking solutions to household over-indebtedness faces challenges that emanate from the economic systems.

Consumers prefer consolidation loans as the primary mechanism to deal with their cash flow problems by combining multiple debt obligations. Consolidation loans are assumed to offer relief and improve monthly cash flow (Williams, 1999). Consumers' often ignore the complexity of financial products when considering consolidation loans (Lee, Park and Heo, 2019). The problem in South Africa is not that people have multiple debts, but that they have too much debt (Koloba, 2018). The amount of perceived savings from consolidation loans, if there are any, will not address the financial challenges faced by households in South Africa. Neoliberal ideology convinces people that borrowing more will solve their financial problems (Springer, 2016; Soederberg, 2014; Foucault, 2008).

Neoliberalism corrupts human thinking, creating a hollowness that manifests in pitting everyone against one another (Springer, 2016). This is often manifested by the resistance to seek debt review. Many consumers have the perception that debt review will tarnish their image while consolidation loans will improve their financial status. Fearing the stigma of being under debt review is often expressed by consumers when justifying why consolidation loans are the perfect solution to their problems. Being under debt review is perceived as a failure of one to manage their debts while getting a consolidation loan is seen as a progressive step that will assist in combining debts and manage them as one.

Lay theories of personal finances give false hope of lower interest rates, lower monthly instalments, and the potential to escape debt traps (Di Muzio and Robbins, 2016). One debt is always believed to be better than many. The language of debt shifts the liability from the aggressor to the victim. The victim is seen to be doing something wrong to keep their dependency on the aggressor (Carter and Walsh, 2016; Gabber, 2011). Managing debts is a common concern for households seeking to keep their debts under control. Unmanageable debts result in poor physical and mental health, family breakdowns, financial exclusion, poor standards of living, and disincentivise finding work or changing jobs or furthering studying (Lane, 2016).

The universality of credit records, credit scores and digitalisation of personal credit histories exposes people to marketers (Soederberg, 2016). Exposure to these parasitic and predatory behaviours of credit providers creates debt traps in the name of lifting people from poverty (Di Muzio and Robbins, 2016; Lazzarato, 2014). Consumers in South Africa face challenges in carrying out self-assessment of debt positions, l*et al*one fully understanding their cost of living. Consumers either are in denial or disillusioned about their financial positions. Psychological determinants of consolidation loans are shaped by financialisation, capitalisation and neoliberal economic policies (Zakaria *et al*., 2018, Parfitt, 2016; Soederberg, 2014; Lapavitsas, 2013; Bryan *et al*., 2009; Larner, 2000). The desire to escape the debt traps through consolidation loans undermines the possibility of successfully achieving financial freedom.

There are multiple layers to the problem of household over-indebtedness. While this research recognizes the causes of over-indebtedness, the focus remains on how household over-indebtedness is perpetuated and reproduced. It focuses on how the supply and demand of consolidation loans tend to be formulated on a symbiotic relationship between a predatory credit market system and an ignorant, naïve clientele base. The question remains why consolidation loans have exploded unabated on the credit market. There is no evidence that consolidation loans achieve what they are marketed to achieve while consumers continuous search for these loans as a debt solution. Majority of these consumers may not sufficiently understand what a consolidation loan is, but what clear is that they are convinced that access to this loan will make them debt-free. One could argue for precariousness that is shaped by the low appreciation of costs of credit (Bouyon and Musmeci, 2016; Carter and Walsh, 2016; Ssebagala, 2016; James, 2014; Ganyaupfu, 2014). To explore the different dimensions of the problem, one must consider the role of ignorance and what shapes it. The failure of consolidation loans to mitigate household over-indebtedness represents a barrier to debt management and rehabilitation in South Africa. The fixation of consumers on the idea of consolidation loans is time-consuming while delaying their access to meaningful credit including vehicle finance and home loans.

The effects of unmanageable debts cannot be over-looked given the negative effects of unmanageable debts. Seeking consolidation loans is a genuine attempt to keep debts under control. Unmanageable debt results in financial exclusion, dependency, family breakdown, poor mental and physical health (Taylor, 2017; Lane, 2016; James, 2014). This entails that household over-indebtedness goes beyond financial strain to include the overall well-being of households. Credit provider harassment and never-ending phone calls leave consumers seeking means to ensure that their debts are paid. This follows the extreme cases of how indebtedness has shaped societies globally with the examples of India, Thailand, and Bangladesh. India's farmer suicides, sex trafficking and international human organ trading reveal the power of debt (Di Muzio and Robbins, 2016). These and other cases have been shaped by attractive marketing that turns out aggressive should consumers fail to meet the requirements of the credit providers.

## 1.4 RESEARCH QUESTIONS

Consumers seeking consolidation loans are usually professionals who are formally employed, holding formal tertiary education qualifications and has previously accessed credit. One may ask why these consumers fail to comprehend the costs of consolidation loans and instead blindly sign up for these loans. They either do not understand consolidation loans, their qualification criteria as well as the costs and benefits of such loans. Seeking to understand what informs consumers when seeking consolidation loans raises questions of the supply and demand for such loans. In seeking to understand the supply and demand drivers of consolidation loans, this thesis will answer the following questions in the subsequent sections.

**Overarching research question:**

*How does the use of consolidation loans exacerbate the over-indebtedness of the users of consolidation loans?*

**Research sub-questions:**

1. Why has over-indebtedness become such a major challenge, globally and in SA?
2. Why have consolidation loans become the primary mechanism for dealing with over-indebtedness?
3. What do consolidation loans achieve and what are the impacts on consumers?

Chapter 3 will answer sub-question 1 and 2 by exploring the global financial crisis and the theoretical framework underpinning household debts. Causes of household over-indebtedness in South Africa is argued in Chapter 3. Chapter 4 starts with unpacking the explosion of long-term unsecured lending in South Africa, highlighting the role of these loans as consolidation loans. Sub-question 3 is answered in Chapter 4 by focusing on consolidation loans drivers, marketing, downsides, myths, and lay theories. By answering the sub-questions, the overarching question is summed up by the findings of the research in Chapter 5.

## 1.5 RESEARCH OBJECTIVES

Consolidation loans only deal with the symptoms of the problem of the neoliberal economic system adopted by Mandela and the ANC government post-apartheid, which promised prosperity (Schneider, 2018; James, 2014). Preaching of financial inclusion to the previously dispossessed resulted in exponential growth of borrowing and household over-indebtedness. Failure to create real jobs leaves the middle and working-class not earning enough to buy enough goods to drive economic growth (Parfitt, 2016; Lapavitsas, 2013; Larner, 2000). Without that, debt is used as a substitute for driving consumption, but debt used to pay other debts neither drives consumption nor economic growth. Instead, it slows down economic growth while worsening socio-economic conditions of the middle class. There was an increase in return to capital while diminishing returns to labour exacerbate inequality since the 1980s (Davies, 2014). Privatisation of money drives non-productive paths to profit by extending debt to households, the private sector, and governments (Davies, 2014; Soederberg, 2014; Lapavitsas, 2013). The result is over-indebtedness. Consolidation is just a Band-Aid; it is not the solution.

The objective is to understand the following factors:

i. To demonstrate how household over-indebtedness and debt repayment burdens affect South African households,
ii. to understand how financialisation, capitalisation and neoliberalism shape consumer behaviour concerning debt repayment,
iii. to investigate consumer perceptions of consolidation loans and financial freedom, and
iv. to demonstrate the short-term and long-term cost of consolidation loans.

The research objective is to highlight the insufficiency of consolidation loans as a debt solution by demonstrating how the financial capitalization has continuously driven unsustainable debt-driven consumption. Using consolidation loans, this research demonstrates the perpetuation of debt cycles. By denying the ability of consolidation loans to mitigate household over-indebtedness, the research is set out to question the role of the NCR in managing household over-indebtedness. One grey area highlighted is the justification of predatory lending (Schmulow, 2016) by outlawing reckless lending. A milestone that is often celebrated as a step closer to household financial freedom (James, 2014).

## 1.6 SIGNIFICANCE OF THE STUDY

Theory and literature search on consolidation loans in South Africa highlighted that there is no existing literature about consolidation loans, yet millions of consumers are participating in the consolidation loan practices. This study contributes to the literature on consolidation loans in South Africa and perceived debt solutions. Exploring the drivers of consolidation loans highlights the systemic issues that give rise to the dependents and fixation on consolidation loans. The research identifies the role of debt literacy in improving consumer responses to consolidation loans. This is consistent with the role of consumer ignorance in the normalization of the exploitative nature of the credit market. Strengthening debt literacy may improve the sustainability of the credit market. The cost of ignorance has quantitative and qualitative aspects of human life. This thesis argues for strengthening debt literacy together with other debt remedies can improve consumer access to meaningful credit and sustain the credit market.

Consolidation loans have emerged to take advantage of mounting debt repayment burdens in South Africa. This research exposes the myths of consolidation loans. It questions the myth that these loans reduce costs of credit or improve cash flow. Instead, it exposes high costs of ignorance and over-emphasises short-term benefits, while ignoring long-term costs. I argue that consolidation loans are not a debt solution, but rather a mechanism for ensuring debt is infinity and unpayable.

Consumers seeking to escape debt traps often find themselves with long-term debt burdens. I argue that neoliberalism has produced and reproduced indebted subjectivities that have been normalised as a way of life (Parfitt, 2016; Stolper and Walter, 2013; Williams, 2004). Household over-indebtedness represents a political art of governing people (Parfitt, 2016; Lazzarato, 2015; Soederberg, 2014). Seeking quick fixes is what popularised consolidation loans (Bolton *et al*., 2013; Williams, 1999). Consolidation loans come at a cost, yet there is no cost-benefit analysis carried out by consumers.

The level of precariousness within South African middle class contradicts Standing's classification of the precariat. Confronting precariousness exposes the deficiency of the credit market system and its role in the perpetuation of exploitative attributes that were inherent within the apartheid system. Considering that the sample group consisted of employed professionals, I argue that the consolidation loans demonstrates the desire by credit providers to maintain debt cycles. As such, this research argues for alternative credit market systems that prioritize consumers wellbeing over profits.  The research highlights the concerns over the effects of debt on the employed middle class. This is consistent with the argument that the problem faced by South Africa today is not growth, but debt. Addressing the triple challenges of poverty, inequality and unemployment is insufficient if the predatory behaviours of credit providers are not addressed. With that in mind, I argue that increasing employment or higher higher-paying jobs are likely to benefit credit providers than consumers. In fact, this can drive debt consumption than goods and services which does not drive economic growth.

## 1.7 THESIS OUTLINE

Chapter 1 introduces the aggressive marketing of consolidation loans as a challenge to debt rehabilitation and management in South Africa. It continues with defining the terms that are used in the research before giving a background to the issue of household over-indebtedness. This will be followed by outlining the problem of consolidation loans, the objective of the research and significant of the study. By highlighting the inadequacy of consolidation loans as a debt solution, the research contributes to the less studied issue of consolidation loans in South Africa. Chapter 2 introduces and justifies the research methodology and methods applied in the study. It highlights the steps that were undertaken in the study including how data will be gathered and analysed.

Chapter 3 and 4 uses secondary data to answer the sub-questions set out in Section 1.4. Chapter 3 is organized into a household debt crisis, household over-indebtedness in South Africa and structural over-indebtedness. This offers a theoretical framework into household over-indebtedness which paves the way to the consolidation loans in Chapter 4. This commences highlighting the growth of unsecured long-term loans by the middle class in South Africa. These loans are usually used for consolidation purposes. The chapter identifies the drivers, marketing, downsides myths and lay theories of consolidation loans. Further analysis of the cost of credit is undertaken to highlight the inadequacy of consolidation loans to settle other credit sub-categories due to varying interest rates and other costs. Chapter 5 discusses the research findings starting with contextualizing consolidation loans. This will be followed by the consumer perspectives, marketing findings and consultants' interactions. Chapter 6 summarizes the research, discusses the conclusions and summaries of the research.

Chapter 3 to 5 are organized in relation to the research questions set out in Chapter 1 as follows; Chapter 3 addresses sub-questions 1: Why has over- indebtedness become such a major challenge, globally and in SA? and 2: Why have consolidation loans become the primary mechanism for dealing with over-indebtedness? Chapter 4 addressing sub-question 3: What do consolidation loans achieve and what are the impacts on consumers? Chapter 5 discusses the findings of the research to answer the overarching question; How does the use of consolidation loans exacerbate the over-indebtedness of the users of consolidation loans? Chapter 6 concludes that the growth in consolidation loans is driven by aggressive marketing against a low debt-literate client base. Recommendations include debt literacy programmes, improving household budgeting and the outlawing of predatory lending. Figure 1 shows the thesis chapter outline.

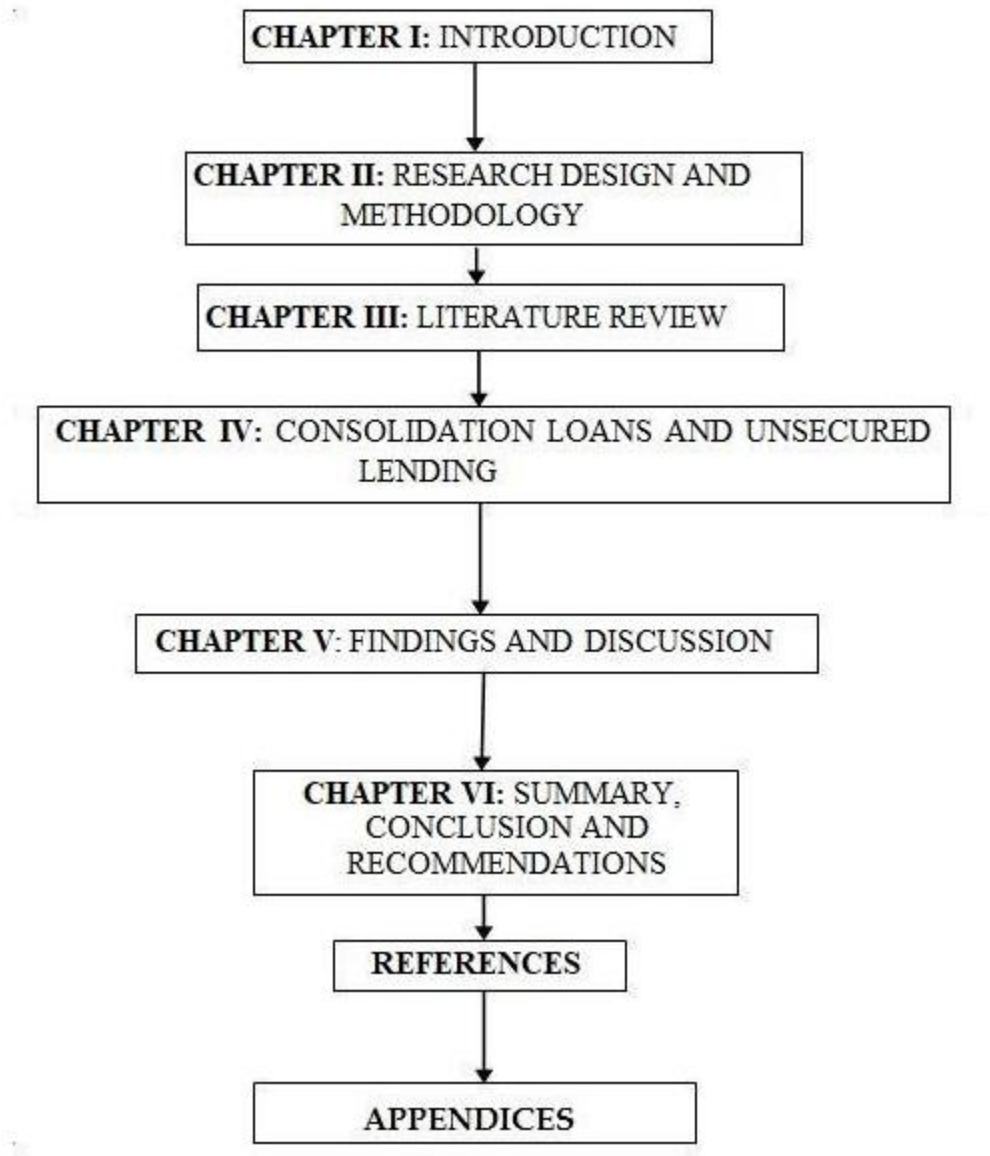


Figure 1: Thesis outline

## 1.8 CONCLUSION

Financialisation, financial capitalism and neoliberalism increased household over-indebtedness globally. The 2008 financial crisis highlighted the effects of neoliberal projects and policies that were adopted by national governments globally, including the ANC post-1994. Like other nations, the middle class in South Africa is heavily indebted. The result of unmanageable debt is seeking more debt to pay the debt. In this chapter, I have argued that debt repayment burdens have resulted in deterioration of household wellbeing globally. It is no surprise that consumers in South Africa are seeking consolidation loans to manage their debts. The research question is centred on the ability of debt to pay off debt using consolidation loans. Consolidation loans are psychologically driven than poverty, given the income group that seeks consolidation loans. Their marketing and use represent predatory behaviour of credit providers who feed off consumer ignorance and desire. Debt creates subjectivity that is sustained through language and creation of the economy of the possible that drives precarious behaviour. In this economy, the entrepreneur of the self is created, one who is expected to make sound financial decisions and take risks. The resulting creditor-debtor relationships are a manifestation of unsustainable debt structures.

The core argument is that debt consolidation loans increase consumer vulnerability, increase inequalities, and constitute financial exclusion. This practice must be condemned as it is predatory and unsustainable in that it does not result in increasing consumption of goods and services. This slows down economic growth while brewing a crisis for the middle class. I have laid out the rationale for the research, problem statement, research questions and chapter structure. He drew examples from the USA student loans, Indian farmers' suicide, Thai sex trafficking and Bangladesh human organ trade. Household over-indebtedness is neither a natural nor a poverty-driven phenomenon. Just like poverty itself, household indebtedness is driven by capitalists who are concerned about increasing their profit margins at the expense of household well-being. The research will develop this argument by answering the following main question: How does the use of consolidation loans exacerbate the over-indebtedness of the users of consolidation loans? To answer this main question, he demonstrates how household over-indebtedness has become a global challenge. In addressing the psychological drivers of consolidation loans, he turns to subjectivity, governmentality, and the existence of 'the indebted man'.

# CHAPTER 2
# RESEARCH DESIGN AND METHODOLOGY

## 2.1 INTRODUCTION

The research aimed at understanding the role of consolidation loans in mitigating household over-indebtedness. Mixed methods were used to gain more understanding of why consolidation loans have become the primary mechanism to deal with household over-indebtedness in South Africa. Almaki (2016) defines the mixed methods approach as empirical research that involves the collection and analysis of both qualitative and quantitative data. For some, it entails combining elements of quantitative and qualitative research approaches. To answer the overarching question, primary and secondary data were used. Household over-indebtedness has both qualitative and quantitative characteristics.

The adoption of mixed methods was guided by Bryman *et al*. (2017), which states that mixed methods should conform to the fundamental criteria of conducting good qualitative and good quantitative research. They articulated that it should be clear which questions were answered by which component, what data was collected and analysed and how sampling was done. Creswell and Tashakkori (2007) state that mixed methods should be more than the sum of its parts. The justification of mixed methods includes triangulation which provides the opportunity for corroboration and convergence of results derived from different methods (Almaki, 2016). The five distinct justifications that were witnessed in this research was complementarity which seeks elaboration, illustration, enhancement and clarification of methods and results from each method.

This research studies the subjective individual that emanates from the debtor-creditor relationship, the indebted man (Lazzarato, 2012). Bryman *et al*. (2017) state that qualitative research tends to give more attention to the subjective aspects of human experience and behaviours. They continued by highlighting that the quantitative approach allows for patterns of knowledge creation to be described rigorously. For instance, consumer perceptions and debt experiences are qualitative in nature, while the financial assessments that were carried out used both qualitative and quantitative methods to draw and analysis consumer budgets. The overarching question combines both methods, while questions one and two were answered using qualitative approaches. Sub-question 3 focused on the quantitative aspects of the research by comparing and interpreting the costs of credit as highlighted in Chapter 4.3.5.

This chapter commences with a research design outlining method used to gather and analyse data as well as justification of the tools applied. This will be followed by highlighting the research methodology. Population selection, data collection and analysis are discussed stating the primary and secondary sources. The chapter concludes with limitations and the possible source of error.

## 2.2 RESEARCH DESIGN

Research design is a framework for the collection and analysis of data (Bryman *et al*., 2017). The research process carries various dimensions that are aimed at answering the questions and objectives of the research. Design, therefore, shows decisions about the relevance and importance of various dimensions of the research process (Bryman *et al*., 2017). Research design is a process that involves many interrelated decisions that are meant to determine how relevant information will be obtained. The first part of the study consisted of an analysis of the nature of consolidation loan inquiries. Financial assessments highlighted trends in consumer perspectives. These assessments are structured interview questions for consumers that results in household budgets. The other element of the design was to engage to consultants who engage with these consumers daily to define the research problem. Semi-structured interviews with consultants were carried out. These followed a continuous process as highlighted in Figure 2.

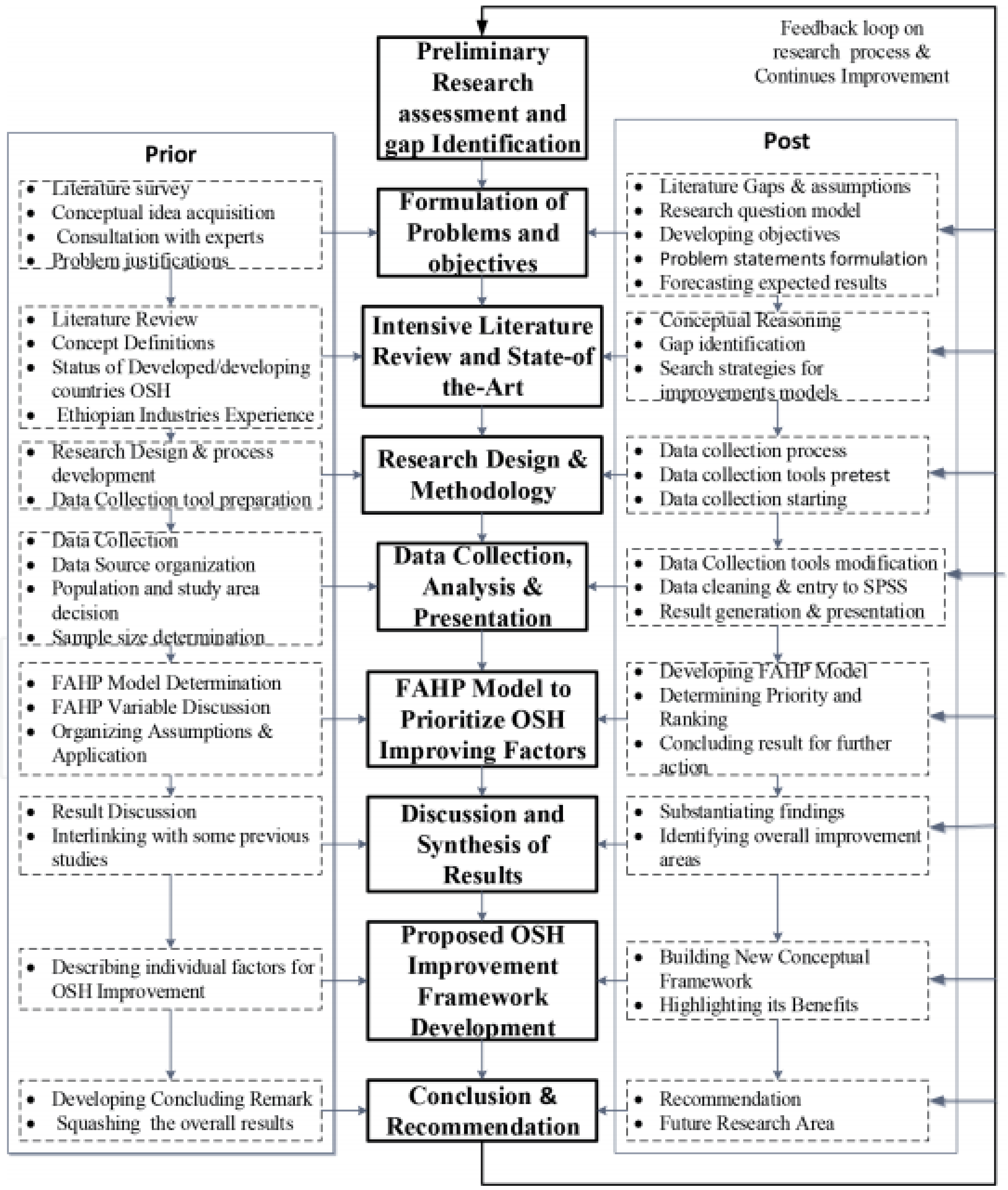


**Figure 2: Research Design**

***Source:*** *Sileyew (2019)*

The concerns over household over-indebtedness have qualitative and quantitative features. To answer the research questions, mixed-method research was adopted to combine both qualitative and quantitative research components. Johnson (2017) states that mixed methods allow expanding and strengthening study conclusions. In this context, the use of mixed methods allowed me to combine people's stories and statistical trends of household over-indebtedness. Drawing budgets followed a careful listening of consumer stories. Sileyew (2019) argues that this approach seeks to better understand the problem than the stories or trends alone. A continuous problem formulation and application of literature in the conversation with consumers was intended to gather more information and relate to the stories of how consumers became over-indebted and how they intend to benefit from consolidation loans.

A convergent mixed-method approach was adopted to answer the research questions. This followed a concurrent design that collected and analysed qualitative and quantitative data concurrently. This applied to individual clients and consultants where literature review was done together with consumer assessments as well as consultants' engagement. Individual assessments were carried out with consumers and findings were recorded to trace the trends that emanated while observing the stories from different consumers. Useful databases were identified including the NCR credit market report to observe unsecured lending growth as explained in Chapter 4.

## 2.3 RESEARCH METHODOLOGY

Research methodology focuses on the processes, tools and procedures used to carry out the research (Mouton, 2001). This section presents the tasks that were undertaken. The mixed-method research approach was undertaken to explain drivers for consolidation loan applications. The research methodology was a simultaneous engagement of literature review, consolidation loan applicants, financial consultants' engagement and case and trend analysis. Research objectives were addressed by the adoption of both qualitative and quantitative methods which utilized primary and secondary data sources. Research methodology highlights the data sources, study area, sampling technique as well as data analysis.

### 2.3.1 Literature review

To answer the overarching research question, it is necessary to understand what indebtedness means and why so many people are indebted in South Africa. The literature review defines debt, linking it with the theory of money. Literature review commenced with identifying if there was any existing literature on the topic of consolidation loans and debt solutions in South Africa. This was with reference to the National Credit Act 34 of 2005. An act that I apply to my work and consumer engagement. After identifying the lack of literature on consolidation loans in South Africa, Google Scholar was used to identifying the most recent, referenced household debt literature in South Africa where I identified Deeper into the Hole by Debra

James. This allowed them to get insights into the lending and borrowing practices in South Africa.

Following the guidance of my supervisor, I drew literature from the Making of the indebted man by Lazzarato who referred to Foucault and Nietzsche. The literature review involved with more relevant and useful literature drawn from the references and governmentality which highlighted Foucault's lectures at the college of France in 1978. The role of debt in poverty creation and widening inequality identified with the debt economy literature including debtfarism and poverty states (Soederberg, 2014). Tying it all was the understanding of how financial capitalism under neoliberalism economics shaped the world we live in today. This focused on the neoliberal discourse as a basis of financial accumulation in South Africa and globally.

A world view was drawn with reference to the 2007/08 financial crisis and the resulting household over-indebtedness. Literature was abundant on the financial crisis and unmanageable debts. More interestingly were the discussions around a subjective individual who emanates from the debtor-creditor relationships. My interests in theories underlying debt use resulted in tracing the discounted utility and intertemporal choices. This was meant to identify the psychology behind consumption behaviour. To answer the research questions, household over-indebtedness was central to the arguments. Existing literature in South Africa on household over-indebtedness was traced using Google Scholar and other search engines for instance academia.

The literature review commenced with a global view on household over-indebtedness by linking the 2007/08 financial crisis with the adoption of neoliberalism globally. The theoretical framework underpinning debt use is traced with the life cycle hypothesis as well as the permanent income hypothesis (Friedman, 1975; Modigliani and Brumberg, 1955). This justifies the use of credit while it questions the moral tone over debt use (Bertola, Disney and Grant 2006). To link consolidation loans with household over-indebtedness, I give an account of unmanageable debt and debt repayment burdens (Antoniades and Panizza, 2018; Gunasinghe *et al*., 2018; Taylor, 2017; Lane, 2016; Brown, 2010; Fitch *et al*., 2007). The effects of unmanageable debts in South Africa is linked to the level of household over-indebtedness.

### 2.3.2 Population and income group selection

The research was done using consumers within the South African legislative boundaries. A purposive sampling method was adopted to select respondents that could provide the most information about the research topic. Bryman *et al*. (2017) observe the use of purposive sampling using semi-structured interviews, focus groups and participant observation as useful in research like this. Consumers selected have debts with South African Institutions in their natural capacity, as prescribed by the NCR (NCR, 2006). Other variables used in population selection is the total amount of outstanding debt and income levels. A minimum total outstanding debt of R60 000 was used during financial assessment.

This was due to the convenience of the data available to the researcher. Client criteria are as per the company segment that they are designated within their employment. Research participants are consumers with an income above R15 000 a month. This follows the concern over the number of unsecured debts accumulated by consumers with an income of more than R15 000 a month (NCR, 2019). SARB (2020) states that only 10 per cent of secured credit and nearly one-third of unsecured credit granted in 2019 was granted to consumers with less than R15 000 gross income per month. While this does not seem to concern the SARB, consumers with more than R15 000 gross income per month absorbed 90 per cent of the secured credit in 2019, while taking up more than two-thirds of the unsecured debts.

Population selection can be defined by clients and consultants. A group of 50 consumer financial assessments were selected. In Section 2.4, financial assessment profiling is highlighted, and the results are reported in Section 5.5. Fifty participants were selected randomly for financial assessments. Assessments were carried out between December 2019 and March 2020. The marital status of consumers considered as single when a consumer is unmarried, divorced, widowed, or married ANC and Community of Property marriage was considered as joint applicants. A joint household financial assessment was done for COP clients. Eleven of the 39 assessments were joint assessments. Of the 50 assessments carried out, 11 were COPs, nine were ANC and 30 were single. Other demographics measured included gender of the clients involved.

A detailed analysis of unsecured lending and credit accumulation by income groups and duration is further provided in Chapter 4. These individuals are the main applicants for consolidation loans. Participants were considered single when they are either married with an ante-nuptial contract (ANC), single, widowed or divorced. Consumers married in community of property were considered joint applicants and household assessments were carried out. Consumers seeking consolidation loans were engaged and financial assessments were carried out. I acknowledge the existences of other financial inquiries on the credit market, including applications for personal loans, vehicle finance, home loans, payday loans, student loans, among others.

### 2.3.3 Financial consultants' engagement

A random group of 10 senior financial consultants were engaged from the beginning of the research to define the problem statement. Financial consultants are registered debt counsellors, as per Section 44 of the National Credit Act 34 of 2005, who offer financial advice to households. They carry out financial assessments with consumers who are financially stressed to develop tailor-made solutions. A team of financial consultants was engaged to develop the research idea to embrace the transdisciplinarity of the research. Each consultant deals with more than 100 clients telephonically every month, where they draw up budgets and analyse household debts. The nature of inquiries differs from product to product, i.e. consolidation loans, financial stress, personal loans, credit report check, to name a few.

A voluntary process to engage was initiated at the commencement of the research and reviews were carried out throughout the research process. In screening the research idea, consultants were interviewed to share their views of the debt problem in South Africa. Through experience, financial consultants expressed their concern over consumers' understanding of consolidation loans and credit in general. Relevant literature was shared with the consultants to better prepare them for the research process. They were mostly interested in the consolidation loan literature and how to combat one-sided marketing of consolidation loans (Bolton *et al*., 2011), costs and benefits of loan consolidation (Williams, 1999), peddling relief on how firms put debtors in a deeper hole (Goodman, 2010). As Chapter 3 unfolded, any interesting new literature was shared with the consultants. These included the Debtfare States and the Poverty Industry (Soederberg, 2014), History of Debt (Graeber, 2011), Deeper into the Hole (James, 2014), The Making of Indebted Man (Lazzarato, 2012) and The Idea of the Precariat (Standing, 2016). These articles were useful in shaping the role of financial consultants in the research.

Consultants' engagement was both formal and informal. Informal engagement included discussion on interesting topics or clients' experience during assessments. Literature analysis concluded with an evolution of the research idea. The research idea evolved from debt cycles, emancipation from debt to defining costs of credit, and appropriateness of credit. Consultants reported unique incidences, including searching for consolidation loans to settle assets or clear accounts that are in arrears. This provoked the main research question of how the use of consolidation loans exacerbates consumer over-indebtedness. The research sub-questions were also discussed with the financial consultants to shape the understanding of the issues that they deal with daily.

## 2.4 DATA SOURCES AND DATA ANALYSIS

Both primary and secondary data sources were considered in the research. Primary data is defined as data directly gathered by the researcher. Secondary data constitutes data obtained from other sources (Bryman *et al*., 2017). This research relied equally upon both sources of data at the point of problem definition and further analysis of the primary data obtained.

### 2.4.1 Primary data sources

Primary data was obtained from the original source of information that included the consumers, consultants, and credit providers. Over-indebted consumers seeking financial solutions were engaged to understand the reasons for inquiry. The primary data was reliable in that it allowed me to engage with consumers to establish information that would be analysed and shared with the consumer to better their financial decision-making process. Reasons for inquiry ranged from financial stress, consolidation loans, debt settlement, housing finance, and vehicle finance. The focus was on consumers seeking consolidation loans. The inquiry intended to identify consumer perspectives, source of information and prior usage of consolidation loans before conducting the financial assessment within the South African boundaries that have South African debt in their natural capacity. Financial assessments were carried out to understand the consumers' financial experience. Consumer's net income was considered as the starting point. This was followed by profiling the consumer about: the number of dependents, marital status and any informal debt acquired. Tables 1, 2, 3 and 4 show the basic information used to profile the clients. A household budget was established depending on marital status.

**Table 1: Consumer profiling**

| Questions | Answers |
|---|---|
| Are you married? | No |
| How are you married (IN COP or ANC)? | None |
| How many dependant adults in the household? (18+) | 0 |
| How many dependent children in the household? (<18) | 0 |
| Are you in arrears on any accounts? | No |
| How many months in arrears? (missed payment count) | 115 |
| Do you have any summons or judgements? | No |
| Do you have a home loan? | No |
| How many vehicles do you have? | 0 |
| Do you have an overdraft? | No |
| Empirical Score | |

**Table 2: Debt obligations**

## Basic Information

| | |
|---|---|
| Date | |
| Consultant | |
| Client name | |
| Caller ID | |

INFORMATION INCOMPLETE

## Debt

| CP on Credit Report | Account Type | Asset Insurance | Outstanding Debt | Monthly payment | Arrears | % paid off |
|---|---|---|---|---|---|---|
| FNB PERSONAL LOANS | Debt Recovery Account | R - | R 50 348 | R 893 | 53 | -38% |
| FNB PERSONAL LOANS | Debt Recovery Account | R - | R 28 093 | R 500 | 34 | -40% |
| DMC909 | Debt Recovery Account | R - | R 15 100 | R 250 | 9 | 3% |
| DMC909 | Debt Recovery Account | R - | R 3 275 | R 600 | 5 | 45% |
| DMC990 | Debt Recovery Account | R - | R 1 550 | R 222 | 6 | 23% |
| HOMECHOICE (REVOLVING) | Revolving Credit Account | R - | R 1 488 | R 25 | 8 | 40% |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
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| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| 0 | 0 | R - | R - | R - | 0 | #DIV/0! |
| **CP not on Credit Report** | **Account Type** | **Original Balance** | **Outstanding Debt** | **Monthly payment** | **Arrears** | **% paid off** |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| **Total Debt** | | **R -** | **R 99 854** | **R 2 490** | **115** | **#DIV/0!** |

Table 3: Household income

## Income

| Type | Monthly Value |
|---|---|
| Client (net) | 8 000 |
| Spouse (net) | 2 500 |
| Other (net) | |
| **Total** | **10 500** |

Table 4: Living costs

| Expenses | | | |
|---|---|---|---|
| **Type** | **Client Amount** | | **Revisions:** (Blank if No Revision) |
| Rent (or Home Ownership Costs) | | | |
| Water/Electricity/Rates | | | |
| Security | | | |
| Petrol/Travel and E-Tolls | | | |
| Funeral Cover | | | |
| Vehicle Insurance | | | |
| Household Insurance | | | |
| Life insurance | | | |
| Pension | | | |
| Groceries [Estimate:1000] | | | |
| Clothing | | | |
| Child Maintenance | | | |
| Home Maintenance | | | |
| Vehicle Maintenance | | | |
| Medical Expenses | | | |
| Medical Aid (not from salary) | | | |
| Cellphone | | | |
| Telephone (Internet) | | | |
| TV License | | | |
| Education | | | |
| Aftercare | | | |
| Bank Charges | | | |
| Creche | | | |
| Levies | | | |
| Contingency | | | |
| DSTV | | | |
| Domestic | | | |
| Other (Please Specify): | | | |
| - | | | |
| - | | | |
| **Total** | **0** | | **0** |

### 2.4.2 Secondary data sources

A literature review was carried out to formulate the theories that were tested in the research process. An analysis of consumer debt obligation was assessed using the consumer credit report. TransUnion consumer credit reports were obtained for the consumers in the study. These credit reports were made available, with consumers' consent to carry out the financial assessments. The credit reports gave me access to the following data sets:

- number of debts obligations.
- the type of credit.
- the terms of the credit.
- consumer payment history.
- consumer credit score.
- number of inquiries made in a year; and
- judgements and any adverse information (defaults and trace alerts).

These indicators were used to ascertain consumers' monthly instalments, total outstanding capital debt and the amount of arrears. Credit report data was then extracted and used in a systematic calculation system set to determine the interest rates, total capital debt and indebtedness ratio. Internet consolidation loan marketing by major banks and other credit providers was analysed through Google search engines. Major banks included the big five (ABSA, Standard Bank, FNB, Capitec and African Bank). Content analysis was applied to consolidation loan marketing and credit report analysis. Content analysis can be defined as a research technique that makes replicable and valid inferences from data to their context (Kim and Kuljis, 2014). Content analysis can be used in both qualitative and quantitative analysis. In this research, content analysis was applied to analyse qualitative data of marketing messages.

### 2.4.3 Data analysis

Qualitative and quantitative data collection and analysis were applied. Data presentation and analysis in mixed-method research requires authenticity and transparency (Palmer *et al*., 2018). Financial assessments established household budgets that measured household indebtedness ratios. Financial indicators were discussed with consumers and notes taken. Total capital debt, monthly instalments, total costs of living, disposable income, the level of indebtedness, adverse information on client's credit records and credit scores were shared with consumers. Budgets were drawn and summaries of financial analysis were made available to each participant for reference purposes. Data analysis allowed for revealing how consumers understand their financial circumstances. This shaped consumer perception of consolidation loans and escaping from the debt trap.

From the stories told by consumers, one could understand the socio-economic effects of debts. Appropriateness of credit and costs of credit is measured within economic terms. Bridging single disciplinary gaps is observed within the complexity of debts and their effects. Transparency of data analysis enables readers to express their perspectives (Palmer *et al*., 2018). Mapping the data analysis journey was faced with a constant redefinition of terms and theories that informed the debt problems and consolidation loan marketing. With continuous engagement with consumers and consultants, the questions kept changing while the theme remained the same. The desire to understand why do educated and employed consumers are attracted by the idea of consolidation loans. While the numerical analysis such as debt servicing ratios, disposable income and total monthly instalments were necessary quantitative indicators, the qualitative aspects of mixed-method research are reflective within the indebted subjects (Davids, 2018).

### 2.4.4 Limitations and possible sources of error

The research journey was informed by the desire to contribute to the literature on consolidation loans. Everyday interactions with consumers seeking financial solutions raised several questions. This led to the evolution of the research question and how the research was carried out. Adjustments made through the research were aimed at maintaining the research objective while accommodating the new theories and problems that emerged from literature and interactions with consumers and consultants.

My current position as a financial consultant offers them sufficient access to information and respondents. The initial inquiry was debt cycles and he later discovered the need for consolidation loan literature. The population selection criteria were determined by my current position which provided me with participants and data to analyse. Challenges arose between gender-related debt patterns, and other factors affecting the type of debts. Distancing the research from debt counselling and focusing on consolidation loans was challenging. The inquiry had to maintain objectivity on consolidation loans and avoid focusing on debt review. To overcome this, I shifted my daily work into debt literacy and financial education for clients.

This shift was quickly adopted, and consumers were willing to participate knowing that this was a beneficiary exercise. This shift would either scare away consumers who were seeking quick fixes, yet others took advantage of free debt advice.

In cases of recommending consumers to seek debt counselling services, consumers displayed immediate resistance. The existing financial literacy gap was observed and was difficult to deal with when assisting consumers. Inability to access the initial budgets that were used when consumers accessed credit poses a challenge as the research used information provided by consumers. The researcher's inquiry on the cost of credit usually demonstrated the inability of consumers to understand the effects of debts. While carrying out budgets, consumers underestimated the costs of living which may have affected the results of the budgets and financial analysis. Classification of loans as consolidation loans proved problematic as most credit providers do not list them as consolidation loans, except for Old Mutual. Tracing the history of consolidation loan usage was problematic, which was later mitigated by an analysis of debt settled versus the intended loan durations. This would be traced with any new loans taken at the time of settling other loans.

## 2.5 CONCLUSION

In this chapter, research, design, and methodology were highlighted. Research design is defined as the framework for data collection and analysis. The nature of household over-indebtedness in South Africa and the context of consolidation loans as a debt solution requires both qualitative and quantitative research methods. Qualitative methods allow for understanding human behaviour and experiences while quantitative methods allow for the studying of patterns observed. Purposive sampling was used to select consumers as discussed in Section 2.3.2 and financial consultants in Section 2.3.3. Availability of information was one attribute while it was objected that the financial consultants would provide the most information on the research topic. The research methodology followed a simultaneous process of literature review, engagement with financial consultants and referring to credit providers' websites to confirm insights on consolidation loan marketing.

A literature review was conducted to strengthen the rationale of the research while developing a theoretical framework surrounding household over-indebtedness and the popularity of consolidation loans. Following a mixed-method research methodology, this research used literature gathered in shaping the subject to be researched, the indebted man. It purposively identified the income group that is active in the consolidation loans market as described in Section 2.3.2. Additional information data was obtained from financial consultants who were conveniently available to participate in the research process. Primary and secondary data sources used included, credit reports, credit provider websites, previous research on household over-indebtedness while primary data was obtained through semi-structured questions that were administered in financial assessments with consumers. The resulting assessments were budgets that were discussed with the consumers. Limitations and possible errors are attributed to my position as a financial consultant which may result in bias. Objectivity was maintained in the research to limit possible errors.

# CHAPTER 3
# LITERATURE REVIEW

## 3.1 INTRODUCTION

The development of financial markets gave rise to multidimensional creditor-debtor relationships (Johnson, 2014; Lazzarato, 2014). These relationships have consequences that range from the ability for households to accumulate resources, improve wellbeing, impoverishment, stress, anxiety, and tragedies like suicide (Di Muzio and Robbins, 2016; Johnson, 2014; Soederberg, 2014). The effects of debt go beyond the financial consequences, which requires a wider conception of wellbeing. Responses to household over-indebtedness have often been partial, dealing with symptoms rather than causes (Antoniades and Panizza, 2018; Di Muzio and Robbins, 2016; Standing, 2016; Lazzarato, 2015; Soederberg, 2014). Consolidation loans are marketed as a remedy to reduce the severity of household over-indebtedness (Bolton *et al*., 2011). Lee *et al*. (2018) argue that it is unfortunate that debt solutions often involve the use of credit products such as consolidation loans, payday loans and revolving credit agreements. The growth in unsecured lending in South Africa is not necessarily related to consumption, but rather loans being used to pay loans (Leriba, 2013).

Since the 2007/08 US sub-prime mortgage crisis, household debt in South Africa increased significantly relative to income (Meniago *et al*., 2013; Engelbrecht, 2009; Hurwitz and Luiz, 2007). There are several interpretations of what caused the crisis. Most literature links the crisis to financialisation, neoliberalism and financial capitalisation (Springer, 2016; Di Muzzio and Robbins, 2016; Soederberg, 2014; Lazzarato, 2014). The continued effects of the crisis in the global South has been linked to poverty, unemployment, and inequality. Most research carried out in South Africa starts with the link between political transition and the adoption of neoliberalism at independence (Schneider, 2018; Ssebagala, 2016; James, 2014; Hurwitz and Luiz, 2007). The most notable is the way the growth of the new urban middle-class was facilitated by the opening of credit access to population groups that were previously denied access (Ntsalaze and Ikhide, 2016; Ssebagala, 2016; James, 2014).

To understand why household over-indebtedness became a major challenge globally and in South Africa, I commence with the household debt crisis, drawing reference from international and local contexts. A theoretical framework underpinning debt use is discussed referring to the Life Cycle Hypothesis and Permanent Income Hypothesis (Friedman, 1957, Modigliani and

Brumberg, 1955). This section gives an account of the effects of unmanageable debt and debt repayment burdens. Unmanageable debts and the debt repayment burden demonstrate the challenge posed by household over-indebtedness globally and in South Africa. Consolidation loans have become the primary mechanism for managing multiple debts in South Africa. Literature is drawn on South African household over-indebtedness, where I argue that the focus of the South African literature has been poverty drivers of over-indebtedness that ignore structural over-indebtedness. I discuss how neoliberalism and financial capitalism contributed to structural over-indebtedness and creation of subjectivities that are maintained by production and reproduction of perpetual debt cycles.

## 3.2 HOUSEHOLD DEBT CRISIS

It is generally accepted that availability and access to credit positively impact economic growth (Aliero *et al*., 2013). Financial institutions play an essential role in providing credit to economic agents who need it and can use it productively (Fakoti, 2015). Debt used for investment has different implications from debt that is used for consumption. Consumption of goods and services has extended to the consumption of debt as a commodity (James, 2014). Financialisation is a term that has emerged to refer to a kind of economic growth that is dependent on the growth of the financial markets and incomes of the sector’s employees and to shareholders. For Wood (2019), the processes of financialisation played a role in increasing inequalities. The global financial crisis was linked to homeownership, which was previously considered an investment. Student loans have grown to over 1 trillion dollars in America. In these situations, debt is used to reduce, avoid, and delay the pain of marginalisation (Soederberg, 2014).

South African household indebtedness literature links household over-indebtedness to poverty, inequality, and the political ideology of financial inclusion (Fakoti, 2015; James, 2014; Hurwitz and Luiz, 2007). Piketty (2014) argues that rising inequalities are driven by powerful forces arising from institutions and policies adopted by societies. South African debt literature does not refer to the notion of the indebted man that has been widely explored in Europe and America. Without this analysis, most research has attributed household over-indebtedness to risky life events, expenditure shocks, lack of financial literacy, financial imprudence, and consumption habits (Fakoti, 2015; James, 2014; Mutezo, 2014; Lusardi and Tufano, 2009). Mutezo (2014) stated that credit consumption in South Africa was still on the rise after the financial crisis.

The problem with the South African household debt literature is that it lacks references to important political economy analysts such as Foucault, Lazzarato, Graeber, Callison, Soederberg, Springer, Di Muzzio and Robins, among others (Callison, 2017; Di Muzzio and Robbins, 2016; Springer, 2016; Soederberg, 2014; Lazzarato, 2014; Graeber, 2011; Foucault, 2008). This thesis addresses this loophole by promoting the argument that while debt is used for subsistence consumption, consolidation loans demonstrate the effects of the debtor-creditor relationships explained by Lazzarato in his The Making of the Indebted Man (Lazzarato, 2012). The indebted man signified the subjective individual who is created under financial capitalism.

The rising concern over poverty drivers of household borrowing decisions was explored in Malaysia using the Life-Cycle Hypothesis (LCH) and Relative Income Hypothesis (RIH). The results concluded that household borrowing behaviour was shaped by psychological factors such as conspicuous consumption, aspirations, and social influence (Zakaria, Jaafar and Ishak, 2017). Consumption is influenced by preference, access to goods that are consumed by others of the same income or education level. South African literature accepts the inevitability of consumer debt problems. For instance, Ssebagala (2017) argues that lending and borrowing behaviours play a role in consumer debt repayment problems. James (2014) describes the effects of debt spiral cycles that create debt holes. For Ntsalaze and Ikhide (2016), most over-indebted households are found in the lower-income category. This literature misses the indebtedness of households that cannot be regarded as living below the poverty line. Hurwitz and Luiz (2007) take on the effects of debt usage by the urban middle and working class. Accumulation of unsecured credit agreements by consumers with income more than R15 000.00 is explained in detail in Chapter 4.

### 3.2.1 The global financial economic crisis

Consumption-driven, debt-financed growth supported economic growth and helped to avoid recession internationally in the 1980s to the early 2000s. The 2008 global economic crisis sparked a new era of research into household debt (Meniago *et al*., 2013). Debt- financed household consumption has since been questioned (Cynamon and Fazzari, 2008; Rinaldi and Sanchis-Arellano, 2006). Debt-to-income ratios increased across the globe, explaining the level of indebtedness of households. High debt-to-income ratios reduce the consumer's disposable income and the propensity to save. With increasing debt-to-income ratios, the debt to GDP ratios increase (Zabai, 2017). Consensus has been reached that high household indebtedness slows down economic growth in the medium to long term. This increases macroeconomic vulnerability and systematic distress (Zabai, 2017; Lazzarato, 2015; Ganyaupfu, 2014).

Persistent changes in income distribution globally increase income inequalities (Barba and Pivetti, 2009). Economic growth has come to mean sustaining consumption rather than development processes that may result in reducing inequality. Sustaining consumption resulted in a decrease in household savings and investments (Ssebagala, 2016). These global trends are evident in South African households whose saving rates have further declined. South African households' debt-to-income ratios remain high (Barba and Pivetti, 2009) since the financial crisis. In 2019, the household debt servicing ratio was recorded at 72.6% (TransUnion, 2019). High dependency on revolving credit agreements, credit cards, overdrafts and retail accounts were on the rise in South Africa in the last quarter of 2019 (SARB, 2019). Revolving credit agreements facilitate juggling debt repayments from one creditor to another (James, 2014).

Nash, Jenkinson, Vayro and Sandlant (2005) identified three core factors resulting in financial difficulty in Australia, citing: unhealthy thinking about finances, unforeseen circumstances and lack of financial skills and knowledge. Figure 2 summarises the reasons for over-indebtedness, highlighting the interrelatedness of variables that cause financial difficulties. Most notable is the range of influences to these factors, which included social, family, lender behaviour, availability of credit, and circumstantial, among others. Some of these variables can be argued to be psychological determinants (Zakaria *et al*., 2017). Circumstantial determinants are prominent within the South African literature (Ssebagala, 2016; Engelbrecht, 2008). The role of financial and debt literacy is further argued in this chapter, citing the work of Lusardi and Tufano (2009). Engelbrecht (2009) gives a scope of financial literacy towards poverty alleviation. The subject of financial literacy is dominant in the household debt domain, maintaining the role of financial knowledge in making informed financial decisions, including borrowing and debt solutions.

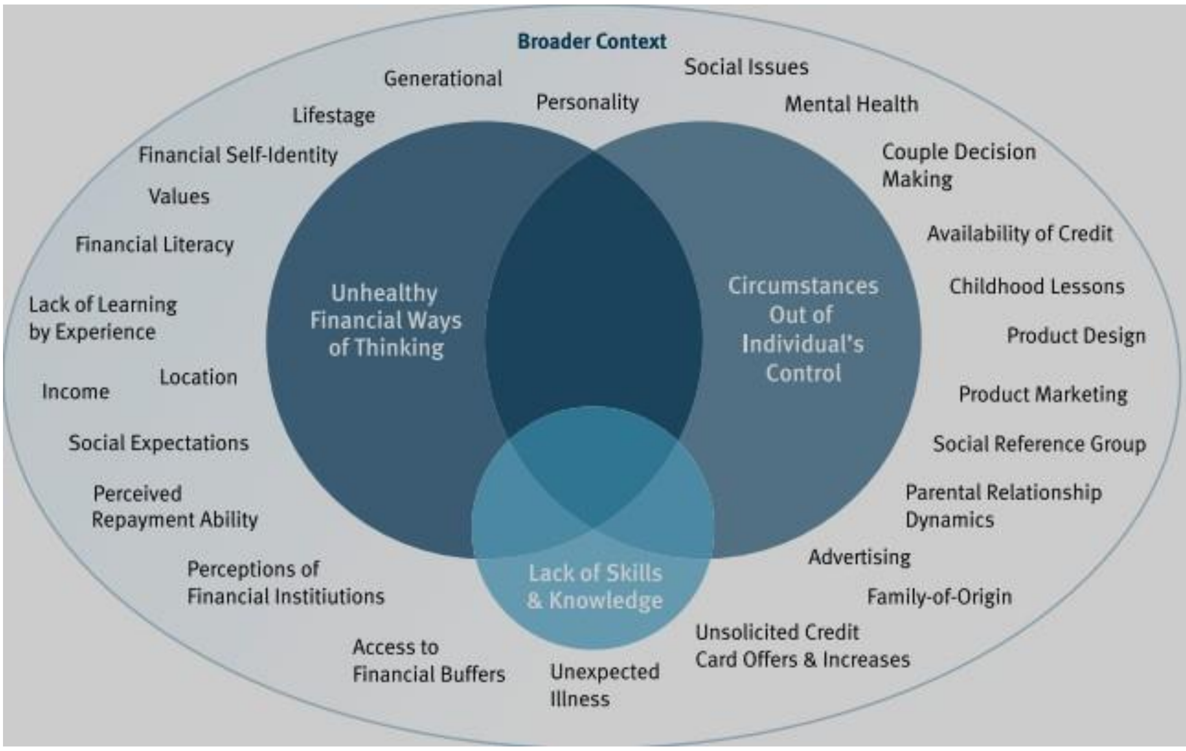


**Figure 3: Reasons for indebtedness**

***Source:*** *Nash et al. (2005)*

Supply and demand for credit contribute towards household over-indebtedness (Nash *et al*., 2005). Unhealthy financial ways of thinking can be generational. Income influences access to credit, as seen by the amount of unsecured debt accrued by consumers with an income of more than R15 000 per month (NCR, 2019), as will be discussed in Chapter 4. Nash *et al*. (2005) point out that consumers may fail to learn by experience. Many consumers who have used debt to pay debt before may admit that it worsened their situation, but still believe that a consolidation loan will give a different result. The effects of unhealthy thinking about finances are reinforced by a lack of financial skills, as argued in Section 3.3.2. For many, the availability of unsolicited credit facilities attracts consumers (James, 2014; Nyaruwata and Leibbrandt, 2009; Nash *et al*., 2005). Nyaruwata and Leibbrandt (2009) argue that there are supply-and-demand causes of over-indebtedness, and as such, supply regulations should be integrated with demand-side interventions. The multidimensional nature of household over-indebtedness and credit should be understood using concepts and theoretical frameworks that underpin debt use.

### 3.2.2 The theoretical framework underpinning debt use

Several investigations on debt usage follow the theoretical frameworks of how households and individuals use credit over their lifetime. For instance, Zakaria *et al*. (2017) refer to the Life-Cycle Hypothesis (LCH) and the Permanent Income Hypothesis (PIH) to investigate whether household borrowing decisions in Malaysia were poverty or psychologically driven. The LCH was postulated by Modigliani and Brumberg in 1954, two years before the PIH by Friedman in 1957. Friedman (1957) states that aggregate consumption is dependent on aggregate income. The fundamental psychological rule of any rational or modern household does not increase consumption proportionally to the increase in household income. The Life-Cycle Hypothesis of savings explains how economic units such as households, families and individuals allocate their resources over their life cycle (Modigliani and Brumberg, 1955).

Jappelli (2006) argues that the LCH and PIH share fundamental attributes on the intention for savings and smoothening consumption. He states that the planning periods between the LCH and PIH are different. Friedman assumes an infinite timeframe when it comes to planning savings. This would assume that people do not only save for themselves, but for generations to come (Friedman, 1957). On the other hand, Modigliani and Brumberg (1955) assume a finite planning timeframe. Jappelli (2006) finds similarities in consumer behaviour in the face of financial shocks. Both theories maintain that there will be saving and dissaving during the consumer’s life cycle (Friedman, 1957; Modigliani and Brumberg, 1955). Modigliani and Brumberg (1955) devote their time to explain the role of uncertainty. They maintain that the desire to maintain a certain consumption pattern should consider the effects of uncertainty.

Considering that these two theories assume negative savings, debt can be used to maintain consumption (Jappelli, 2006). In South Africa, where there is a low savings culture (Ssebagala, 2016), speaking of how these hypotheses relate to household debts and consumer borrowing behaviour may prove relevant. Bertola *et al*. (2006) investigate the economics of consumer credit where they argue that the moral tone of most household debt discussions has maintained disapproval. They argue that household borrowing may just be as sensible as savings. This justifies the need to smoothen consumption over the life cycle. In their view, it would be impossible for consumers to only consume their income. Borrowing to sustain a more desirable consumption pattern can be optimal in an economic sense (Ntsalaze and Ikhide, 2016). The challenge starts when debt becomes unmanageable as shown by household over-indebtedness (Johnson, 2014). Managing debt over the life cycle of an individual is arguably the most sustainable challenge faced by households today.

### 3.2.3 Unmanageable debt

Household over-indebtedness is a characteristic of unmanageable debt. Over-indebtedness signals household financial fragility (Balmer *et al*., 2010). Several studies in the UK demonstrated the effects of unmanageable debt (Gunasinghe, Gazard, Aschan, MacCrimmon, Hotopf and Hatch, 2018; Antoniades and Panizza, 2018; Lane, 2016). Unmanageable debts are linked to wider life problems, including family breakdowns, poor mental and physical health (Antoniades and Panizza, 2018; Lane, 2016). Duygan-Bump and Grant (2008) state that falling into arrears has long-term consequences for homeownership, employment, and self-employment. Krumer-Nevo, Gorodzeisky and Saar-Heiman (2016) argue that high levels of debt-to-income ratios increase the risk of financial exclusion. Mental health concerns were also reported in Western Sydney on working adults (Taylor, 2017). Cuesta and Budria (2015) reported that there is a correlation between debt burdens and health. Their findings are like others who traced the individual health effects of over-indebtedness (Gunasinghe *et al*., 2018; Brown, 2010; Fitch *et al*., 2007). Fitch (2007) pointed out that debt problems are associated with low self-esteem, depression, hostility, and severe anxiety.

Some research has confirmed depression and anxiety and potential thoughts of suicide by students and graduates in the USA (Di Muzzio and Robbins, 2016; Springer, 2016; Soederberg, 2014). Cuesta and Budria (2015) argue that debt repayment burdens result in households saving on medical care as well as health protection such as healthy food. Financial burdens inhibit rational behaviour, resulting in non-healthy behaviour, including smoking, excessive drinking, and calorie intake (Bridges and Disney, 2010; Fitch *et al*., 2007). Wang, Sareen, Afifi, Bolton and Johnson (2012) point out that financial problems are second to depression on suicide attempts. Cuesta and Budria (2015) argue that there are few attempts to analyse reverse causality between debt and health. They suggest tracing the chain of causation from debt to health and health to debt.

Consumers with unmanageable debts face credit provider harassments, threats of legal action, having judgements, repeated penalties by banks for late payment (Balmer *et al*., 2010). Repossession of assets or having several months in arrears on mortgages and cars can be an indicator of unmanageable debt. Lane (2016) states that of the various studies on unmanageable debts, the commonly agreed-upon indicators include high debt-to-income ratio, higher debt servicing costs and burdensome debt. Lane went further to question the application of these indicators, raising concerns over the relationship between household debts and income as well as the period during which households can be considered okay to be in arrears (Lan, 2016).

This analysis may fall short of analysis of debt used to pay debts. Juggling with debts was addressed by Guerin (2014) and James (2014) and both found the use of debt to pay debt problematic. James (2014) is more concerned about the anthropological effects of debts and how debts manifest digging oneself into a hole. In explaining the effects of debts and wider life issues, Lane (2016) confirms previous studies on the effects of unmanageable debts on the standard of living. The acceptance of the LCH to the use of debt to smoothen consumption was justified by Bertola *et al*. (2006). Lane (2016) confirmed the well-known effects of debt on lowering the standard of living. Debt reduces disposable income, which affects spending on food, payment of bills and other household essentials.

Unmanageable debts lead to financial exclusion and struggle to access mainstream credit products (Lane, 2016). James found a complex interaction between formal and informal money lending in South Africa (James, 2014). The use of payday loans and other expensive loans has other contributing factors. Consumer decisions to use payday loans have social-psychological drivers such as credit score, risk profiles, financial knowledge, and arrears on other debts (Lee *et al*., 2019). Debt causes financial problems that have harmful effects on personal relationships, leading to family breakdowns (Lane, 2016). Lane confirmed that more than half of the respondents used in the investigation confirmed the negative effects of debt on their families.

Unmanageable debt disincentivises finding work or changing a career (Lane, 2016). People with unmanageable debt are less flexible to improve their education or seek new opportunities. Lane further states that these links are independent of the effects of poverty. The effects of debt on people's lives cannot be understated. Limitations identified by Lane (2016) include relying on qualitative data that disconnects the effects of unmanageable debt and other wider challenges faced by people. On the other hand, quantitative data tends to focus on the effects of debt problems on mental health. Lane (2016) criticises these data sets for not giving a direct comparison of unmanageable debt and other wider life issues.

### 2.3.4 Debt repayment burdens

The search for consolidation loans in South Africa has continuously grown among the middle class with the desire to escape the debt trap. It will be argued that debt under neoliberalism has become unpayable (Lazzarato, 2012); it has become infinite (Soederberg, 2014); it must be reproduced instead of being resolved (Mura, 2015). Unmanageable debt has resulted in multiple horror stories told through history. Graeber (2011) traces the history of debt in Debt the First 5000 years. In his account, in the 1720s, debtor's prisons of the British saw impoverished debtors being shackled together in tiny cells, where they suffered and died from hunger and jail fever without pity. This is the reality of the current world economy as seen in the US and world over. For the very same reasons, consumers in South Africa resort to the use of debt to pay debt to avoid the harshness of non-payments, as will be accounted for in this Section.

There are substantial costs of over-indebtedness, such as family breakdowns, loss of family homes and cars due to repossessions (Lane, 2016; Balmer *et al*., 2010). Several accounts of the link between debt and other social problems can be traced. For Cuesta and Budria (2015), understanding the effects of financial strain on individual health is a relevant economic concern. Mental health has been raised as largely affected by financial stress (Taylor *et al*., 2017; Balmer *et al*., 2010). Debt constitutes social exclusion and poverty (Lee *et al*., 2019; Lane, 2016). Soederberg (2014) uses USA student loans as an indication that debt is used to delay exclusion. The moral confusion of debt consists of simultaneous notions; paying back borrowed money is a matter of morality and those with a habit of lending money are evil (Graeber, 2011).

To emphasise this moral confusion, I give an account of debt as power, starting with Galey's account of debt in the Himalayas (Graeber, 2011). Low-ranked casts who were referred to as the vanquished signify the indebted man (Lazzarato, 2012). The vanquished lived in permanent debt dependency (Graeber, 2011). Their meals were dependent on loans from the landlords, who expected them to pay back the interest in the form of work. Rooted in their culture were events like weddings and funerals, which required a great deal of borrowed money. In the case of weddings, the vanquished used their daughters as security for the money borrowed. The bride would report to the lender's household after the wedding night, where she would spend a few months as the lender's concubine, who would, after getting bored with her, send her to the nearby timber camp to work as a prostitute. She would work in the camps as a prostitute for more than two or three years to pay off her father's debts before returning to her married life (Graeber, 2011). The normalisation of using one's daughter to pay debts reveals the way patriarchal power relations become embedded within traditional debt obligations (Thorgeirsdottir, 2015). Graeber explains that Galey did not report any feelings of injustice. Instead, everyone felt that this was how things were supposed to work (Graeber, 2011).

The rise of debt as power corresponds with accounts of prostitution, crime, gangsterism and organ trade globally. The suicide of Farmer Reddy, Indian rice, and sunflower farmer, in 2003, was not an isolated case of the effects of indebtedness to usurious moneylenders (Di Muzio and Robbins, 2016). His crop had failed, yet he was indebted, leading to him taking his own life. An epidemic of suicide by farmers in India occurred between 1995 and 2010, where more than 256 913 farmers took their lives by ingesting pesticides (Young, 2010). In rural Thailand, Di Muzio and Robbins encountered the story of a girl, Nok, whose father was indebted, and she wilfully participated in being trafficked to Japan to pay her father's debts. In the process, she also became indebted and worked in the sex industry to pay her and her father's debts (Di Muzio and Robbins, 2016). There are countless cases of Thai women trafficked to Japan and other regions, boasting a thriving sex industry worth $31 billion (UN, 2009). Debt exacerbates poverty and desperation, which has fuelled the trade of human organs (Decker, 2014). Bioviolence in the form of human organ bazaars reveals the unethical and exploitative organ commodification in Bangladesh related to indebtedness (Moniruzzaman, 2012). Di Muzio and Robbins (2016) posit that the  poor use the organ money to service their debt.

The account of debt repayment burdens shows the dark side of creditor-debtor relationships that sees punishment for failure to pay. More than 40 million students in the US leave college indebted (Soederberg, 2014). Standing (2016) argues that these people have their future stolen and debt tied around their necks. For others, democracy preached in the US starts to look like democracy (Di Muzio and Robbins, 2016). Creditor-debtor relationships emasculate debt holders (Thorgeirsdottir, 2015), the morality of these relationships raises not only political challenges but sustainable development challenges as others worry that debt may destroy humanity before it reaches environmental collapse (Springer, 2016; Lazzarato, 2014; Soederberg, 2014).

There is an ongoing debate on the politicization of debt which follows the effects of the global financial crisis. The argument remains the role of debt in development. Whether debt impedes or straws development. Once again, any non-consumptive debt use does not drive development.

As such, the context of consolidation loans is used to illustrate this notion, where I argue that using debt to pay debt does not result in any economic growth. Using consolidation loans, I will demonstrate how the effects of neoliberalism and the perpetuation of debt-burdened subjectivities constitute exclusion rather than inclusion. It will be argued that consolidation loans use debt as a means of financial predatory capture that reinforces the debt extraction machine; they drain the human, economic and psychic resources of the whole of society (Mura, 2015). By using debt to pay debt, one is neither consuming goods nor services, but rather extending the debt cycles.

## 3.3 HOUSEHOLD OVER-INDEBTEDNESS IN SOUTH AFRICA

The literature on South African household over-indebtedness links the debt problems to the 2008 financial crisis. For instance, Mutezo (2014) points out that while the developed world has experienced a decrease in debt accumulation, South African households remained on the raise. The continued expansion of household credit resulted in household over-indebtedness (Fakoti, 2015). Household over-indebtedness is seen as an indicator of too much debt (Baum and Schwartz, 2006). Defining over-indebtedness is challenging. D'Alessio and Lezzi (2013) begin the definition of the indicators of over-indebtedness by referring to the LCH. They posit that there are several characteristics of over-indebtedness. These include the inability to meet recurring expenses, compromising standards of living to meet debt obligations, and having arrears on mortgages, rent, bills, and school fees, among others (Fakoti, 2015).

The commonly cited definition of over-indebtedness in South Africa is as per the National Credit Act 34 of 2005. Over-indebtedness is when the preponderance of the available information at the time of an assessment indicates the inability of a consumer to satisfy on time all their obligations under all credit agreements (NCR, 2006). This considers the consumer's financial means, obligations, and prospects. This definition is widely referenced in the literature (Ssebagala, 2016; Fakoti, 2015; James, 2014; Mutezo, 2014; Nyaruwata and Leibbrandt, 2009). Fakoti (2015) points out the implications of the characteristics of over-indebtedness, emphasising the importance of recurrence of inability to meet obligations. The inability is structural and has a time dimension (Fakoti, 2015; Baum and Schwartz, 2006). The definition is often viewed as stationary by emphasising on the information available at the time of assessment (Ssebagala, 2016; James; 2014).

Probable propensity to satisfy debt obligation refers to the consumer's credit history (Fakoti; 2015; NCR, 2006). These considerations are prominent in consolidation loan applications. The NCR emphasises the effects of failure to pay debts on time as the occurrence of over-indebtedness (NCR, 2014). Consumers' responses to missing payments are usually panic, stress and anxiety. Baum and Schwartz (2006) recognise the effects of financial shocks on the ability to pay debts. They point out that other than over-indebtedness driven by poverty, most people are affected by financial shocks such as job losses, which result in a reduction in household income. An objective definition of over-indebtedness considers the Net Indebtedness Index (NII) (Fakoti, 2015). The NII for households considers net household income minus total household debt and expenses (Liv, 2013). It is believed that the NII is the basis of affordability assessment stated by the National Credit Act 34 of 2005, Section 79 (NCR, 2006).

The NII is objectively applied to the reckless lending regulations of the NCR, Section 82 (NCR, 2006). Fakoti (2015) further argues that if the NII is more than 100%, the household is over-indebted. If the NII is between 76% and 100%, then the household is at risk. These indicators will be discussed in Chapter 5. Subjective over- indebtedness points to the sacrifices that consumers make to meet their debt repayments (Fakoti, 2015). The debt-to-income ratios are commonly used to define subjective over-indebtedness (Nyaruwata and Leibbrandt, 2009). Between 2008 and 2013, a decline in the debt-to-income ratio from 82% to 75.6% was reported (Fakoti, 2015). The Reserve Bank reported a further decline to 72.6% fast-forwarding to 2019 (see Figure 3).

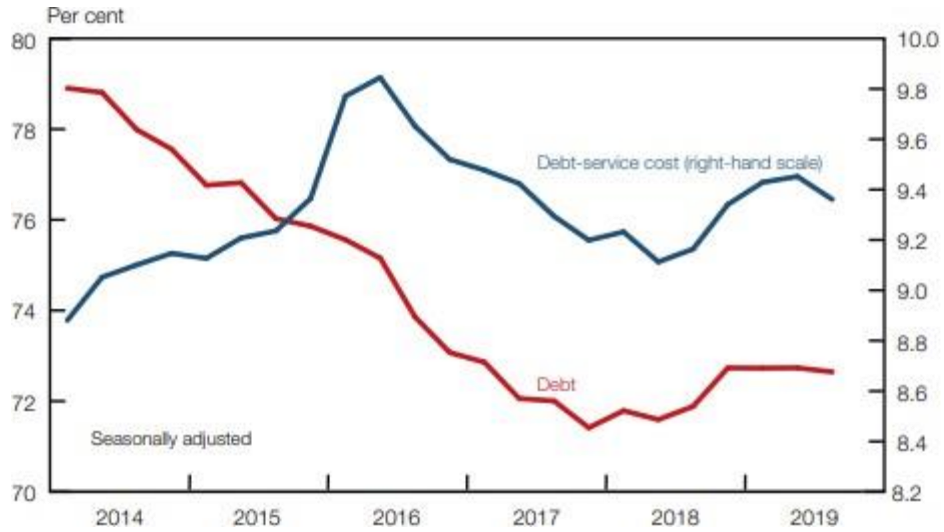


**Figure 4: Household debt-to-income and debt-servicing costs-to-income ratio**

***Source:*** *SARB (2019)*

The third quarter of 2019 reported a steady growth in household debts, which was consistent with nominal spending (SARB, 2019). The SARB states that there was moderate growth in overdrafts and credit cards among other credit agreements. The Trans Union Consumer Credit Index (CCI) is a measure of consumer credit health (TransUnion, 2019). Quarter 4 reported improvements in household cash flow resulting in household inflationary adjusted income. The report shows a 2.2% decrease in accounts early defaults, which reflects an improvement in consumer payment behaviour. Distress borrowing associated with credit cards and store accounts improved. Figure 4 below shows the CCI.


**Figure 5: Q4 2019 Consumer Credit Index**

***Source:*** *TransUnion (2019)*

### 3.3.1 Causes of over-indebtedness in South Africa

There are several narratives to the causes of household over-indebtedness in South Africa. James (2014) offers an anthropological view of the causes of over-indebtedness by tracing the lending and borrowing practices in South Africa. She discusses the effects of a complex credit system that utilises formal and informal credit providers. Meniago *et al*. (2013) used the Vector Error Correctional Model (VECM) to investigate the causes of household over-indebtedness. The VECM is a general framework that is used to describe the dynamic interrelationships of stationary variables. They concluded that household over-indebtedness was caused by positive changes in household consumption expenditure, house prices, inflation, GDP, and household savings.

Mutezo (2014) used regression analysis to study the relationships between household debt and other variables, including disposable income, net wealth, inflation, and interest rates, between 1975 and 2013. She reviews the effects of increased credit-granting before the financial crisis leading to the increase of the repo rate by the Reserve Bank by 5% between the period of 2005 and mid-2008 (Mutezo, 2014). The move was meant to curb credit granting, while the current period has been characterised by a drop in the repo rate to encourage credit extension. Her conclusions point to the partial structural nature of the problem compounded by credit liberalisation, low net wealth, household consumption and higher disposable income. Meniago *et al*. (2013) reveal that the literature tends to be more theoretical. Most of the household literature in South Africa points to poverty drivers of over-indebtedness (Fakoti, 2015; James, 2014; Mutezo, 2014). On the contrary, consolidation loans are not considered by the low income or unemployed, but rather high income employed consumers.

### 3.3.2 Predatory and reckless lending

The conceptualisation of reckless lending and borrowing came into effect with the enactment of the National Credit Act 34 of 2005 (NCR, 2006). James (2014) provides a brief shift in the legislative role of the state that had previously liberalised the credit market. The resulting negative effects of credit liberalisation is argued to contribute to structural over-indebtedness, Chapter 3.5. Schmulow (2016) points out the intentions of the Act to combat reckless lending and mitigate the problem of over-indebtedness. Chapter 4, Part D of the Act is dedicated to over-indebtedness and reckless credit (NCR, 2006). Over-indebtedness is defined as per Section 78 of the legislation, followed by reckless credit, Section 80. The prevention of reckless credit is provided in Section 81, while Section 82 provides for assessment mechanisms and procedures. Section 83 is relevant to the qualification of consolidation loans if read together with other subsections.

Predatory lending can be defined as the granting of credit that results in serious harm to the consumer (Schmulow, 2016). In A Take of Three Markets: The Law and Economics of Predatory Lending, Engel and McCoy (2002) provide an account of predatory lending. They point out that predatory lending manifests in exploitative high-cost loans given to naïve borrowers. Blaming on the impulsive borrowing of borrowers fails to take account of the market failures. Engel and McCoy (2002) object to blaming the consumers only because this allows the credit providers to flourish at the expense of the society and the economy. Engel and McCoy (2002) raise concerns over the incentive structures in the mortgage market. They state that these incentives fuelled predatory lending. These arguments are important to note given that this article was written before the financial crisis. Wood (2016) also points to the effects of incentives within the financial market, pointing out incentives to employees and shareholders.

Consolidation loan marketing may be characterised as predatory lending. Bolton *et al*. (2011) argue that consolidation loan marketing is a one-sided affair that downplays costs and the downsides of such loans for the debtor. There are significant downsides to the use of consolidation loans (William, 1999). The downsides of consolidation loans include the longer repayment terms and overall interest payable by the consumer. In South Africa, consolidation loans have higher interest rates than what they are marketed to be. Engel and McCoy (2002) argue that any attempt to address predatory lending must be able to describe it. In South Africa, consolidation loan marketing targets the upper-income middle class, as will be shown in the sample used. Engle and McCoy (2002) heavily criticised asset-based lending practices such as the use of cars or houses as security when granting unsecured debt. Goldstein (1999) highlights three relevant indications of predatory loans: unfair loan terms, abusive practices, and reverse redlining. Figure 5 highlights Goldstein’s continuum of predatory lending.


**Figure 6: The continuum of predatory lending**

***Source:*** *Goldstein (1999)*

Reckless lending and predatory lending are not the same things. Schmulow (2016) argues that reckless lending ignores consumers' circumstances, while predatory lending actively preys upon the consumers’ circumstances. Payday loans have often been cited as predatory lending (Lee *et al*., 2019; Schmulow, 2016; James, 2014). Schmulow (2016) argues that the NCA addresses predatory lending through outlawing reckless lending. This argument is problematic as reckless lending justifies credit providers granting credit to consumers that can qualify. The resulting over-indebtedness highlights the danger created by lending practices.  James (2014) explains the South African credit market as a system that draws more and more people into a debt net.

### 3.3.3 Perceived debt repayment effort over time

Debt creates temporal relationships between consumers and credit providers (Mainala *et al*., 2017; Jesus and Oliveira, 2013). Jesus and Oliveira (2013) point out that debt is a special form of consumption that allows obtaining products now and paying later. They argue for the necessity of analysis of credit decision making to understand how consumers subjectively perceive time and how this impacts their decision making. Intertemporal choices are decisions that involve trade-offs between costs and benefits occurring at different time horizons (Ericson and Laibson, 2018; Jesus and Oliveira, 2013; Kim and Zauberman, 2009; Frederick *et al*., 2002). Ericson and Laibson (2018) argue that research on intertemporal choices is no longer about the accuracy of the exponential discounted utility model, but to explain the models that best describe the robust deviations often observed. Frederick *et al*. (2002) state that these decisions do not only affect individuals' wealth, health, and happiness but the economic prosperity of nations. Kamleitner and Kirchler (2007) apply a process model to explore consumer viewpoints on consumer credit use, process before credit take-up, the process during credit take-up, and process after credit take-up. In this view, credit use is a long-term process. Figure 6 shows the process model of credit use.

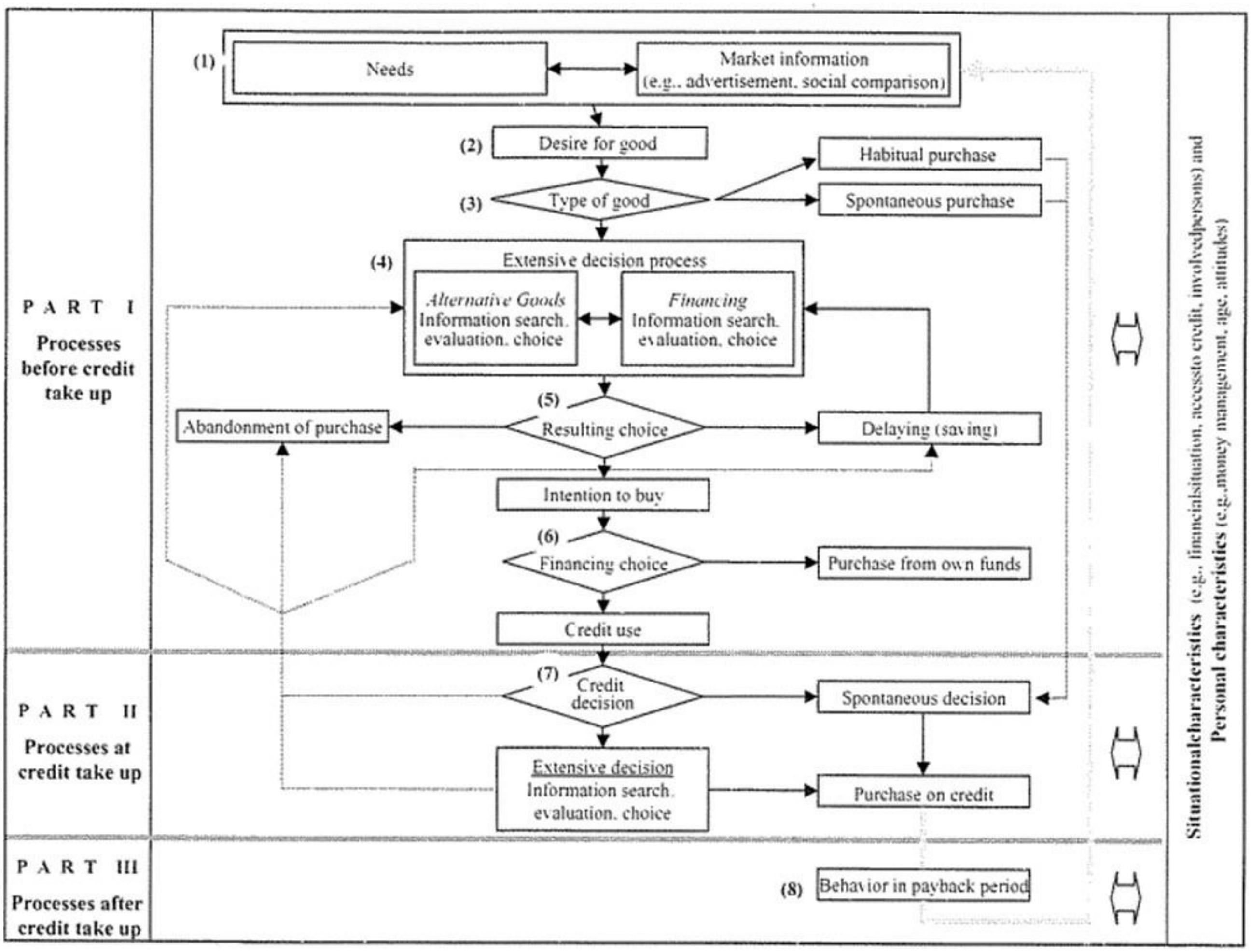


**Figure 7: Credit use process model**

***Source:*** *Kamleitner and Kirchler (2007)*

Before offering the substance of credit use and intertemporal relationships, Jesus and Oliveira (2013) offer intertemporal research findings. They discuss notions of "now or later, to borrow or to save, and credit and time". There are similarities between the process model of Kamleitner and Kircher and the intertemporal choices of Jesus and Oliveira. They all draw their reference from the early normative models of intertemporal choices (Fischer, 1930), Discounted Utility Models (Samuelson, 1937), and time discounting and time preference methods (Frederick *et al*., 2002). Jesus and Oliveira (2013) explain that the discounted rate increases steadily over time. Individual discounts delayed consumption value heavily when delaying immediate consumption than when delaying similar consumption starting at a later stage (Jesus and Oliveira, 2013; Kim and Zauberman, 2009; Frederick *et al*., 2002), for instance, between today and tomorrow vs 30 days from now to 31 days.

The choice to borrow or to save is a choice that individuals must make consistently. Jesus and Oliveira (2013) point out that not having money offers consumption alternatives including to borrow or not, not to buy, or to save. Kamleitner and Kirchler (2007) refer to Earl Wilson who noted that modern man drives mortgaged cars on bond-financed roads using credit card gas. They accept the notion of social acceptability of credit usage, stating that goods purchased on credit involves paying for the goods during or after consumption. Jesus and Oliveira (2013) find the choice to borrow peculiar in that it avoids declining purchase in the absence of money. Without cash, consumers turn to credit instead of waiting or avoiding buying or waiting. The same case was highlighted by Soederberg (2014) who argued that debt is used to avoid and delay marginalisation. Jesus and Oliveira (2013) state that by accepting to pay interest, people accept to pay more for not waiting.

The process before credit uptake is followed by the process at credit take-up, and last, the process after credit uptake (Kamleitner and Kirchler, 2007). Kirchler (1989) proposed the purchase decision model. The model follows the LCH (Modigliani and Brumberg, 1955) of households or families who have various needs for goods and services (Kim and Zauberman, 2009; Kamleitner and Kirchler, 2007). These vary from everyday consumption to expensive products such as cars and houses. Extensive purchase decisions include affordability of the goods, the choice of goods and choice for preferred financing method (Kirchler, 1989). When considering affordability, now or later may be applied (Kim and Zauberman, 2009; Jesus and Oliveira, 2013), and using credit does not involve signing a contract immediately as alternatives are usually considered, depending on circumstances (Kamleitner and Kirchler, 2007). Spontaneous purchases can be achieved by credit card use or use of the household bank.

The process after credit uptake may be faced with repayment challenges (Ssebagala, 2016). Financial challenges may temporarily occur (Kamleitner and Kirchler, 2007). Jesus and Oliveira (2014) argue that repayment is not necessarily perceived the same across the repayment period. Trade-offs between benefits and debt repayment pain distinguish credit decisions from other life decisions (Kamleitner and Kirchler, 2007). The events during the credit repayment period influence credit evaluation and are dependent on consumer situations.

### 3.3.4 Intertemporal choice

Individuals prefer smaller earlier than larger delayed rewards (Ericson and Laibson, 2019; Shenhav, Rand and Green, 2017). This behaviour is a powerful predictor of impulsivity in different kinds of rewards. Steeper discounters are people that prefer smaller sooner rewards (SSR). They use more automatic and less controlled-choice strategies. Steeper discounters give more intuitive yet incorrect responses to cognitive reflection tests. Steep discounters prefer less complex information. Shenhav *et al*. (2017) observe that these people need cognitive closure, as shown using short-form social media such as Twitter and Facebook. They have reduced epistemic complexity in religious and interpersonal beliefs. Their beliefs on other people's behaviours are fixed rather than dynamic, seen to believe mainly in God and the afterlife (Shenhav *et al*., 2017). Intertemporal choices shape how consumers approach their financial choices and adopt debt solutions.

Debt prompts temporal relationships between consumers and credit providers (Ericson and Laibson, 2019; Jesus and Oliveira, 2013). Temporal relationships are based on intertemporal choice paradigms that are informed by economic and psychological decisions (Grüne-Yanoff, 2015; Loewe, 2006). The substance of debt and intertemporal relationships are governed by concepts of now or later, to borrow or to save, credit and time (Jesus and Oliveira, 2013). People underestimate their procrastination, which is attributed to overconfidence and limited memory (Ericson and Laibson, 2019). Evolution of the discounted utility model saw the ultimate attempt on the diversity of disappointment (Grüne-Yanoff, 2015). Application of these principles can be related to how people perceive instalment payment efforts (Jesus and Oliveira, 2013). The understanding of credit and time speak of simultaneous positive and negative results.

Possession of goods is regarded as positive, while instalment payments are negative. When consumers choose to pay a fixed instalment over time, there is a compromise between the pleasure of purchase and pain of repayment (Jesus and Oliveira, 2013). The nature of credit and debt is that there are trade-offs between reward and time. Relationships between future payments and current enjoyment cannot be discounted. Adequacy of the compromise by consumers over time is understood to influence perceived effort (Ericson and Laibson, 2019; Jesus and Oliveira, 2013). Intertemporal choices and power result in consumers making decisions that have consequences that play out over time. Sustainability of the credit market largely depends on the choices that consumers and credit providers make today.

## 3.5 STRUCTURAL OVER-INDEBTEDNESS

The effects of debt use and over-indebtedness on the urban middle class is a growing concern in post-apartheid South Africa (James, 2014; Hurwitz and Luiz, 2007). Democracy brought hope for equality and inclusion for groups that were previously excluded from credit access (James, 2014). Like Schneider (2018), James (2014) argues that the credit system in South Africa exhibits legacies of apartheid. Schneider (2018) argues that South Africa maintained apartheid institutions post-1994. James (2014) goes further to elaborate on the transformation of the credit system and the role of apartheid civil servants in microlending. In this section, I argue that the adoption of neoliberal policies by the ANC government and Mandela in 1994 may have replaced apartheid with a new colonial logic of indebtedness. South African household over-indebtedness debates mainly a focus on the low-income households, which pays little attention to household over-indebtedness of high-income households.

### 3.5.1 Neoliberalism, capitalism and financialisation

Consumer situations have made households preying grounds for predatory credit providers. To achieve this, the consumer has been drawn into a system of indebtedness under neoliberalism, financialisation and financial capitalism. Lazzarato (2012) gives an account of the development of power relations by studying the debtor-creditor relationship. This relationship produces subjectivities (Callison, 2017). The emergent subject is the indebted man which, Lazzarato (2012) argues, is a strategic tool in the hands of financial market agents in neo-liberalised systems. In his analysis of neoliberalism, Simon Springer argues that discourse is both a mechanism and expression of power by which particular social realities are conceived, manifested, naturalised, and legitimated (Springer, 2016). The result is inequality, dominance, and exclusion. Springer argues that neoliberal discourse does not float above the earth but is connected to our everyday lives.

Neoliberal market-based systems shape relationships between individuals and institutions, human behaviour, and its projects implicate themselves in lived experiences (Springer, 2016). This statement is powerful for the analysis of consumer behaviour. Foucault (2008) argues that the rise of neoliberalism may be difficult to understand but, it is a clear achievement by the economic elite. The deeper structural and systemic changes shape the world today. Humans today have been transformed into human capital (Brown, 2014). For Brown, neoliberalism penetrates workplaces, public agencies, schools, politics, and social discourse. Through debt, neoliberalism has transformed higher education in the USA, while dismantling public health systems (Di Muzzio and Robbins, 2016; Soederberg, 2014). Springer (2016) argues that the discourse of neoliberalism is cruel, sick, and worthless. As such, it should be discarded as it renders individuals meaningless and hollow. Neoliberalism instils social behaviours with malice and spite which shapes human behaviour.

Springer (2016) argues that neoliberalism convinces society to play its zero-sum game, cultivating selfishness to reap its own rewards. Foucault emphasised the importance of subjectivity while emphasizing the demands that capitalism places on the subject (Kiersey, 2009). To understand the social relations of capitalism, Di Muzio and Robbins (2016) approach the study of debt as power from the perspective of an interconnected historical holism. This notion recognises interconnectedness, power relations, and the existence of social hierarchies. Di Muzzio and Robbins (2016) adopt a holistic account of debt as a technology of power within debt economies. Modern economies globally have been transformed into debt economies, which Soederberg defines as Debtfare states (Soederberg, 2014). Di Muzzio and Robbins (2016) refrain from conducting an extensive literature on the history of debt but recognise Graeber's book, Debt: The First 5000 Years (Graeber, 2011) and Pikkety's Capital in the Twenty-First Century (Pikkety, 2014).

For Graeber, social obligations are eventually turned into quantifiable pecuniary debt (Graeber, 2011). His account of power and debt is premised on how debt is typically enforced through the threat of punishment and violence. He underlines that the market economy resulted from war, slavery, and conquest. Di Muzzio and Robbins (2016) criticise Graeber for failure to sufficiently theorise the power underpinnings of debt in society. They begin with recognising the presence of power, stating that debt creates differential social relations. They did not recognise the body of literature from others before them, who extensively explored these power relations. For instance, Lazzarato's work (2012), which explored power relations within the debtor-creditor relationships, and Soederberg's work (2014) on Debtfare states and the Poverty Industry. These two give a good account of the power relations that underlie debt-based economies.

Di Muzzio and Robbins (2016) state that debt is not just money owed by one party to the other, but a technology of differential power that exists over others rooted in private ownership. To emphasise their disagreement with Graeber, they oppose the assumption of equality presupposed by debt (Graeber, 2011), and see, rather, the underlying inequality instead (Di

Muzzio and Robbins, 2016). They prefer to talk about differential power. Several arguments put forth include private ownership of money, private control, and its capitalisation. Understanding debt in its international dimensions and interconnectedness allows for exploring the power relations that manifested in the creation of the indebted subjects.

### 3.5.2 Financial Literacy

Financial knowledge is fundamental to the successful management of financial resources (Davies *et al*., 2019; Lee *et al*., 2019; Lusardi and Tufano, 2009). Predatory behaviour by credit providers is inevitable due to profit-driven aggressive marketing (Fakoti and Oni, 2014). However, Ssebagala (2016) argues that the lack of financial literacy in South Africa is the main driver of over-indebtedness. This suggests that the consumers are not to be blamed as over-indebtedness is a symptom of deeper socio-economic problems. In this case, debt literacy and financial knowledge may help people to respond, but it does not resolve these deeper problems. Information-based interventions help consumers to understand consolidation loans and their downside (Bolton *et al*., 2011). A loan-focused approach seeks to improve consumer knowledge of financial products. A lender-focused approach informs consumers about lender behaviours (Bolton *et al*., 2011). Both approaches are aimed at improving consumers' financial capabilities.

Empirical evidence shows that there are low levels of financial literacy globally (Davies *et al*., 2019; Bolton *et al*., 2011). Low debt literacy levels in low-income households increase their vulnerability (Ericson and Laibson, 2019; Lee *et al*., 2019; Stopler and Walter, 2017; Soederberg, 2014). Lusardi and Tufano (2009) pioneered the work on debt literacy by exploring consumers' knowledge of basic financial concepts such as compound interest and inflation. These concepts are useful in managing the complexity of cash flow management, savings, credit repayment, homeownership, and retirement savings (Fakoti and Oni, 2014; Bolton *et al*., 2011). Some argue over the increase in complexity of financial products that are compounded by technological advancement resulting in increased access to credit (Ssebagala, 2016; Fakoti and Oni, 2014; Disney and Gathergood, 2013).

Bolton *et al*. (2011) argue that basic financial literacy is insufficient for informing consumers' responses to different financial products. Specific reference is made to consolidation loans. The complexity of these loans calls for an understanding of cost-benefit analysis (Williams, 1999). A linear understanding is applied by consumers who simply believe that by taking one loan rather than paying several loans, savings will be achieved. These forms lay theories of personal finance (Molden and Dweck, 2006; Williams, 1999) and spread financial myths (Emmons, 2004). The level of ignorance and beliefs of lay theories are more psychological than poverty driven (Zakaria *et al*., 2013). Consumers push payment burdens into the future, assuming a better financial standing in the future (Zauberman and Lynch, 2005). Targeting lay theories and myths of loans and lenders can potentially improve financial decision making (Ssebagala, 2016; Loke and Hageman, 2013; Bolton *et al*., 2011; Lusardi and Tufano, 2009; Williams, 1999). However, as Lusardi and Tufano (2009) argue, there is a cost attached to ignorance. Costs include the use of high costs loans where one could have used different credit facilities. The use of unsecured loans to purchase vehicles or the use of personal loans to construct rental rooms were reported by respondents.

### 3.5.3 Self-assessment and financial experience

Lusardi and Tufano (2009) surveyed 1 000 Americans on the working knowledge of compound interest, credit cards and the ability of consumers to compare and make choices over the cost of borrowing. Only 36% of respondents could comprehend the working of compound interest, while only 7% of the respondents understood the time value of money (Loke and Hageman, 2013). This framework was applied to consolidation loan assessments. The framework measured consumers' debt literacy, reaction to financial indicators and comprehending one's financial position. Consumers with a lower appreciation of their financial position and understanding financial indicators were less likely to accept debt solutions than those driven by panic or anxiety.

The application of Lusardi and Tufano's framework by Disney and Gathergood in the UK on 2 500 non-retired consumers found high levels of debt literacy when measuring the relationship with net worth. Respondents with low scores were found to have a lower net worth, burdened with debt, and were likely having trouble with paying off their debts (Nanziri and Leibbrandt, 2018; Loke and Hageman, 2013; Disney and Gathergood, 2011). The same can be said about payday loan users (Lee *et al*., 2019, Nanziri and Leibbrandt, 2018). A comparison between America, the UK and the Netherlands confirmed that consumers in America had a lower debt literacy level than those in the Netherlands and UK. In the absence of similar studies in South Africa, it is safe to assume that consumers in South Africa have a lower debt literacy considering their responses to consolidation loan marketing. There is a low appreciation of interest rates and other costs of credit. Consumers do not comprehend basic principles of interest rates, accumulated payback as well as credit sub-sectors.

## 3.6 CONCLUSION

The theoretical framework of household over-indebtedness started with the acknowledgement of the 2007/08 financial crisis and the emergent desire to study household debt. This recognized the multi-dimensional nature of the household debt. Household debt has become a major concern globally since the financial crisis. While it has since started decreasing elsewhere, South African household debts have continued to increase relative to income. The causes of household over-indebtedness have been attributed to several factors that are characteristics of neoliberal economics that were adopted by the South African government and ANC at independence. The policies that were adopted had implications for the resulting household over-indebtedness.

Access to credit has positive impacts on economic growth for nations. It allows financial institutions to support development. This has not been the case globally, with many governments encouraging the middle-class to turn to credit. Debt role in supporting development has been eroded by the focus on the use of debt for consumption than investment. Furthermore, non-consumptive debt use is on the rise. This is characterised using credit to pay creditors to keep one's debts up or manage one's debts. Solving the triple challenge of poverty, inequality and unemployment has become counter-productive due to unsustainable credit market system. The resulting unmanageable debts shape the society in history and present. Seeking debt to pay debt is an attempt by consumers to contain the effects of unmanageable debts and the mounting debt burdens. To understand this, one must explore the underlying literature on household over-indebtedness in South Africa and globally. The South African literature focuses on poverty drivers of household over-indebtedness which ignore systematic over-indebtedness which is shaped by a predatory credit market system.

The attempt to prevent household over-indebtedness through reckless lending is proving challenging as it assumes responsible borrowing. Many argue that reckless lending rules and regulations are stationary, while others believe that they justify predatory lending. Theories underpinning credit use includes the LCH and PIH, which justifies saving and dissaving. These theories shape the choices that individuals, households and states make when borrowing. There are perceived debt repayment efforts overtime which fits well with the idea of consolidation loans. Consumers are informed by intertemporal choices when deciding consumption. The use of debt is argued as a decision that is shaped by avoiding waiting. For most parts of the world, structural over-indebtedness has spread through the application of neoliberal policies and projects perpetuated by financialization. The literature highlighted that there is an emergence of a subjective man, the indebted man.

The indebted man is the product of the asymmetric creditor-debtor relationships that shape society. Debt results in domination of the credit providers over the consumers. International literature argued that there is the normalization of these relationships which shapes social rationalities that manifest in the way consumers engages financial institution. Financial institutions are the origins of the debt problems yet tend to offer solutions to the problems that they created. This is all done in the name of helping the consumer. A notion that displaces the language of help with exploitation. For that reason, literature blames neoliberalism for consumer behaviour. Knowledge creation under these systems has created subjectivities that lack basic financial and debt literacy. South Africa suffers from low debt literacy which results in the failure of consumers to carry-out self-assessments and utilizes their financial experience to escape debt cycles. Instead, the experience of juggling shapes the idea of borrowing a big loan to settle other loans.

Based on the literature investigated, household over-indebtedness is multidimensional. It goes beyond financial problems to the overall human wellbeing. The South African literature points out the common causes of over-indebtedness while it distances from the systemic causes and the role of household debt in widening inequalities and exacerbating poverty. While there have been attempts to mitigate household over-indebtedness, the increase in unsecured lending is a worrying phenomenon. Chapter 4 will trace the increase in unsecured lending in South Africa and its role in consolidation loans.

# CHAPTER 4
# CONSOLIDATION LOANS AND UNSECURED LENDING

## 4.1 INTRODUCTION

The Consumer Credit Market Report (CCMR) for the quarter ending December 2019 recorded increases in credit granted from R143.00 billion to R145.382 billion in the last quarter of 2019 (NCR, 2019). A slight decrease in the number of credit applications from 11.95 million to 11.94 million was recorded for the same quarter. The report shows overall growth in the amount of credit granted by 0.5% on a year-on-year basis between the last quarter of 2018 to the last quarter of 2019. The size of unsecured loans has increased drastically (Leriba, 2013), constituting 20.79% of the R145.382 granted in the fourth quarter of 2019. SARB (2020) states that nearly one-third of new unsecured credit granted in 2019 was to individuals with incomes of less than R15 000 a month. This suggests that the performance of unsecured credit is largely dependent on the well-being of individuals with incomes above R15 000 a month.

More than 50% of unsecured credit being granted by credit providers are consolidation loans (SAHRC, 2017). The growth of consolidation loans together with the tendency of credit providers to offer consumers more than what they want contributes to the increase of unsecured credit. In this chapter, I commence with the analysis of the consumer credit market between the fourth quarter of 2018 and the fourth quarter of 2019. He pays attention to the growth of unsecured credit, credit facilities and short-term credit and uses data from the NCR's CCMR to show the role played by unsecured credit in the consolidation of other credit types. The growth of unsecured lending is perpetuated using credit to pay off credit, as demonstrated by the growth of long-term unsecured credit over 5.1-10 (NCR, 2019).

Consolidation loan marketing drives consumers to seek consolidation loans. I argue that consolidation loan marketing results in myths and problematic lay theories of personal finances. This follows an argument that consolidation loans have a downside that is often downplayed by marketers who overemphasise the benefits (Bolton *et al*., 2011; Williams, 1999). I explore the drivers and predatory lending of consolidation loans by explaining the costs, timeframes, and the potential transfer of debt repayment burdens into the future. The last section highlights the role played by debt literacy in mitigating predatory lending. Knowledge of basic principles of debt, including compound interest, terms of the credit agreement and so on, are discussed. This section concludes with the cost of credit in South Africa, highlighting the interest rate of consolidation loans versus other credit subtypes. The cost of credit highlights the downside of using consolidation loans to settle credit cards, overdrafts, store accounts, secured credit, and mortgages.

## 4.2 UNSECURED LENDING IN SOUTH AFRICA

Unsecured credit is defined as all transactions for which the lender does not have any security (Leriba, 2013; NCR, 2006). This sub-section of credit has grown drastically since the enactment of the NCA in 2006. Unlike the Usury Act, the NCA allows for smaller and short-term loans that were needed by poor black people (James, 2014; Leriba, 2013). The period between 1998 and 2002 is marked by the first microloan crisis, which was followed by the next lending boom that ended with the financial crisis (Leriba, 2013).

For Leriba, the enactment of the NCA in 2006 did not automatically result in the credit boom due to the global financial crisis. Instead, the actual boom started in 2010 when consumers returned to the market (Leriba, 2013). Reasons for the boom can be attributed to income increases (Mutezo, 2015), increases in consumer confidence (Leriba, 2013), and formal employment, resulting in improved wage/salaried income (James, 2014). With this came more stringent lending criteria for home loans forcing most people into the unsecured credit market (SAHRC, 2017; Leriba, 2013). In this section, I demonstrate that the growth of unsecured credit from 2010 to the fourth quarter of 2019, as demonstrated by the CCMR. The CCMR is used to analyse quarterly data as prescribed by the NCA.

The market overview showed growth of credit granted and the number of consumers active. According to the CCMR, overall growth in credit granted was 0.50% on a year-on-year basis between the last quarter of 2018 and the last quarter of 2019 (NCR, 2019). Between the third and fourth quarter of 2019, applications decreased by 0.01%, while rejections increased by 2.25% from 57.67% to 58.97% in the same period. The report shows that banks issued 97.74% of the total credit value, non-bank vehicle finance contributed 8.18%, retailers constituted 4.25%, while other credit providers contributed 7.83% (NCR, 2019). Table 5 provides the data for the period between December 2018 and December 2019. Credit granted per type illustrates the credit sub-sectors as discussed in section 4.2.1. The table shows negative growth in many subsectors including unsecured credit, short-term credit and credit facilities. A decline in unsecured lending may demonstrate distress in the credit market. This research suggests that the decline in short-term credit by 23.20% may be attributed to the use of long-term unsecured credit to settle short-term loans. Worth noting is that major micro-lenders such as Capitec and African Bank has started increasing the period of their unsecured loans up to 84 months. Therefore, Leriba (2013) mistakenly argued that there was no sign of crisis. It is obvious that by 2013, it would have been difficult to tell.

**Table 5: Credit granted per credit type**

| Agreements | 2018-Q4 R000 | 2019-Q1 R000 | 2019-Q2 R000 | 2019-Q3 R000 | 2019-Q4 R000 | 2019-Q4 % Distribution | % Change (Q4/Q3) | % Change (Y/Y) |
|---|---|---|---|---|---|---|---|---|
| Mortgages | 41,987,504 | 35,239,545 | 40,184,436 | 43,160,531 | 43,733,484 | 30.08% | 1.33% | 4.16% |
| Secured credit | 45,412,106 | 39,850,388 | 41,203,406 | 43,333,966 | 46,191,486 | 31.77% | 6.59% | 1.72% |
| Credit facilities | 21,670,829 | 20,263,914 | 21,108,047 | 22,572,414 | 21,306,448 | 14.66% | -5.61% | -1.68% |
| Unsecured credit | 31,131,005 | 28,245,060 | 28,637,233 | 30,067,134 | 30,224,428 | 20.79% | 0.52% | -2.91% |
| Short-term credit | 3,211,484 | 2,447,528 | 2,366,709 | 2,342,794 | 2,466,306 | 1.70% | 5.27% | -23.20% |
| Developmental credit | 1,244,072 | 1,809,717 | 1,210,990 | 1,526,675 | 1,460,091 | 1.00% | -4.36% | 17.36% |
| **Total** | **144,657,000** | **127,856,152** | **134,710,821** | **143,003,514** | **145,382,243** | **100.00%** | **1.66%** | **0.50%** |

***Source:*** *NCR (2019)*

The effects of growing long-term lending (Figure 7) mean that consumers are trapped in long-term debt traps, limiting their affordability in the long run. From a banking perspective, the SARB (2020) articulates that long-term unsecured lending mitigates risks for banks. This is further justified by the fact that secured credit is granted to upper-income consumers. Only 10% of secured credit granted in 2019 was issued to individuals with incomes less than R15 000 a month and nearly one-third of unsecured credit was granted to the same income group. The SARB is confident that the performance of the unsecured credit portfolio of financial institutions is not dependent on the well-being of low-income consumers. I argue that the accumulation of unsecured debts combined with the repayment of secured credit should be worrisome.

The accumulation of unsecured credit by consumers with an income of above R15 000 a month is problematic. Between the third quarter of 2018 and 2019, their share of credit granted has consistently increased. The lowest accumulation share was 66.07% in the first quarter of 2019 (see Table 6). Figure 8 illustrates an upward growth in unsecured credit accumulated by this income group. These trends and the increase in the lending terms means that this income group is tied to unsecured credit for a longer period which excludes them from accessing home loans and vehicle finances. It is further argued that the dependence on credit of this income group facilitates precarious consumption and juggling between credit providers. This is the income group that depends on credit cards and overdrafts. Their income leaves them susceptible to predatory lending practices that were discussed in Chapter 3.

**Table 6: Unsecured credit granted by individual gross monthly income (Rand Value)**

| Level of income | 2018-Q3 | 2018-Q4 | 2019-Q1 | 2019-Q2 | 2019-Q3 |
|---|---|---|---|---|---|
| ≤R10K (R000) | 4,805,535 | 5,400,496 | 5,502,311 | 4,724,523 | 4,837,659 |
| % share of credit granted | 16.85% | 17.35% | 19.48% | 16.50% | 16.09% |
| R10.1K-R15K (R000) | 4,451,781 | 4,634,636 | 4,080,237 | 4,120,647 | 4,322,512 |
| % share of credit granted | 15.61% | 14.89% | 14.45% | 14.39% | 14.38% |
| >R15K (R000) | 19,264,601 | 21,093,478 | 18,660,159 | 19,789,592 | 20,904,766 |
| % share of credit granted | 67.54% | 67.76% | 66.07% | 69.11% | 69.53% |
| **Total value of unsecured credit (R000)** | **28,521,917** | **31,128,611** | **28,242,706** | **28,634,762** | **30,064,937** |

***Source:*** *NCR (2019)*

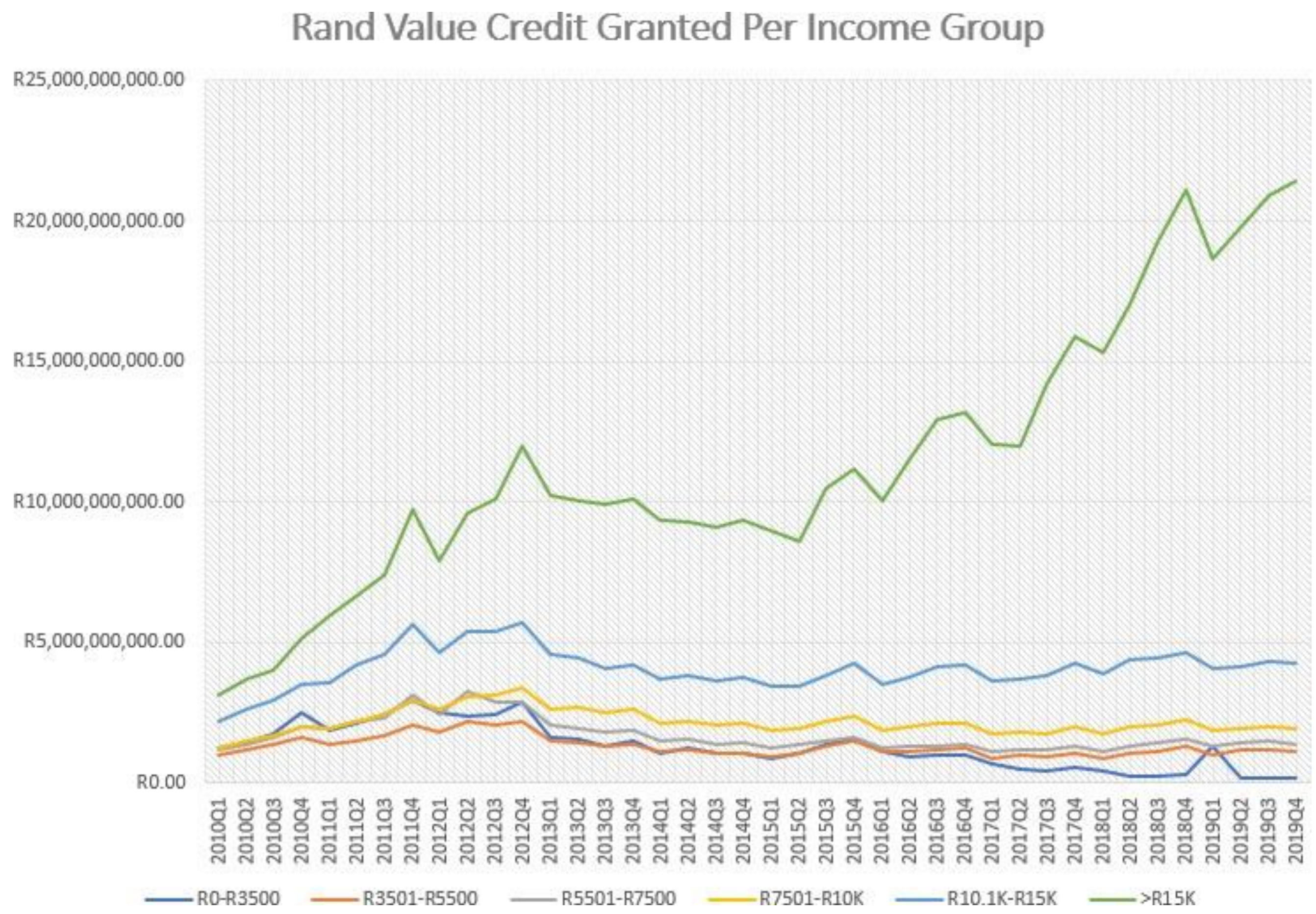


**Figure 8: Rand value credit granted per income group**
***Source:*** *NCR (2019)*

The growth in consolidation loans is evidence that borrowing and juggling limits may have been reached. If 50% growth of unsecured credit in 2011 was primarily consolidation loans (SAHRC, 2017), the growth in long-term loans suggests continued growth. Consolidation loans are usually structured over five to seven years and in some cases eight years. This research finds the classification of loans as consolidation loans to be problematic in that banks do not record them as consolidation loans on the credit bureaus, except for Old Mutual Finance. FNB, ABSA, Bayport, African Bank and Capitec label them personal loans, while Standard Bank uses the "Advance account" designation. In this view, most of the long-term loans accumulated by consumers are partly used for consolidating some sort of debt. It may be partial, but consumers are continuously topping up their personal loans or borrow from one credit provider and pay another.

The growth in long-term unsecured lending was observed between 2010 and 2013 for loans between 3.1-5 years and 5.1 to 10+ years (NCR, 2019), (see Figure 9). Between 2013 to the third quarter of 2015, there was a drop in the amount of long-term unsecured lending. Since then, growth has been consistent which was met with a decrease in unsecured loans below 3 years. Based on credit reports observations, longer-term loans are being used to settle the shorter-term loans. The ability of the same credit providers to offer long-term and short-term loans sees more consumers accessing short-term loans in the beginning then either top them up or apply for longer-term loans and settle the short-term loans.

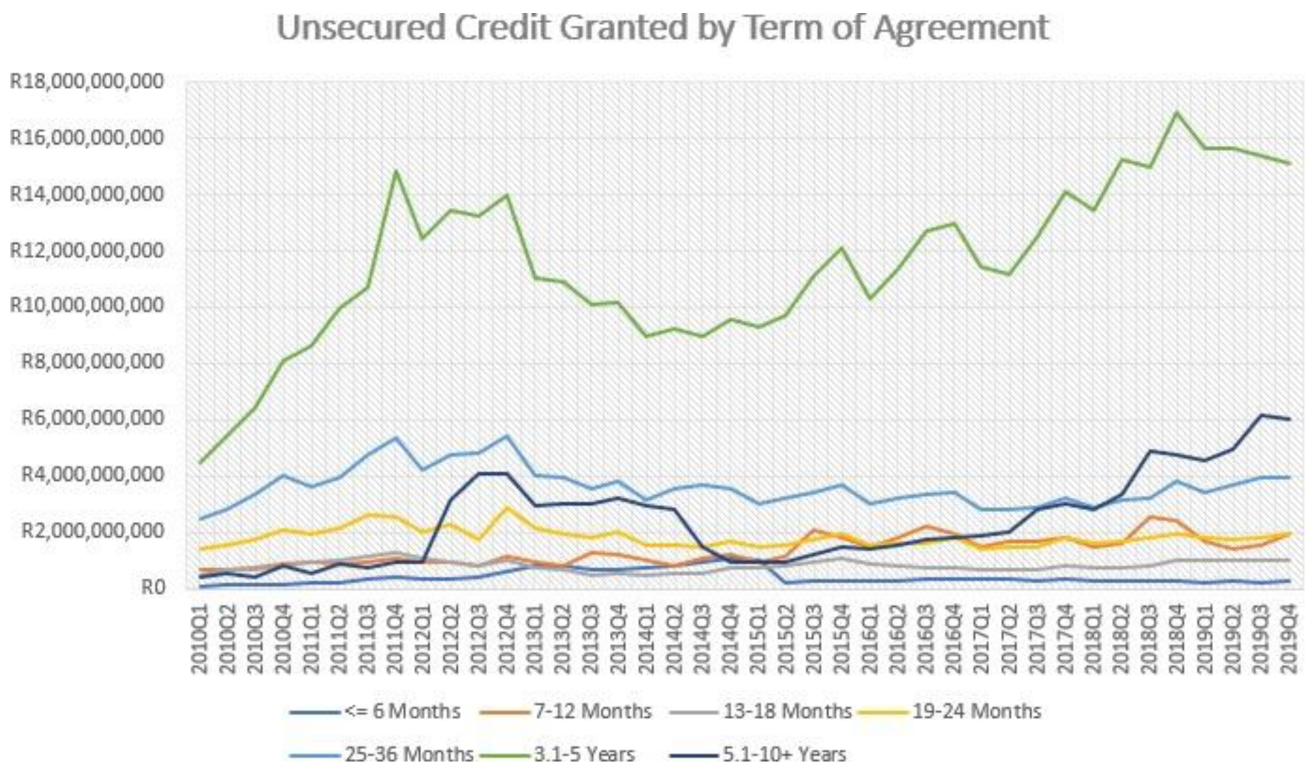


**Figure 9: Credit granted by term of agreement between 2010 and 2019**
***Source:*** *NCR (2019)*

The growth of unsecured debt accumulation by consumers with income above R15 000 per month has continued to grow since 2010 (NCR, 2019; SAHRC, 2017). The CCMR for the end of the fourth quarter of 2019 shows a shift in the growth of unsecured long-term loans (Table 7). Loans of 3.1 to 5 years declined by 10.86%, while loans of 5.1 to 10+ years grew by 26.48% on a year-on-year basis (NCR, 2019). This shift suggests that consumers are continuously deepening their indebtedness. The increase in rejections is matched with declines in the applications received in the same quarter. What is evident is that consumers are shifting towards longer-term loans, slowing growth in short-term loans of less than six months, followed by a decline of 19.96% for 7 to 12 months' loans, while 13 to 18 months' loans also dropped by 0.96% (NCR, 2018). An overall decline of 2.91% was recorded between 2018 and 2019, showing the overall decrease in unsecured credit, which may suggest consumer credit saturation.

**Table 7: Unsecured credit granted per term of agreement**

| Agreements | 2018-Q4 R000 | 2019-Q1 R000 | 2019-Q2 R000 | 2019-Q3 R000 | 2019-Q4 R000 | 2019-Q4% Distribution | % Change (Q4/Q3) | % Change (Y/Y) |
|---|---|---|---|---|---|---|---|---|
| ≤6 Months | 274,754 | 236,294 | 241,939 | 230,963 | 277,888 | 0.92% | 20.32% | 1.14% |
| 7-12 Months | 2,400,767 | 1,669,424 | 1,373,884 | 1,555,934 | 1,921,604 | 6.36% | 23.50% | -19.96% |
| 13-18 Months | 1,024,448 | 973,508 | 1,013,631 | 995,886 | 1,014,631 | 3.36% | 1.88% | -0.96% |
| 19-24 Months | 1,972,037 | 1,777,765 | 1,755,478 | 1,798,357 | 1,945,075 | 6.44% | 8.16% | -1.37% |
| 25-36 Months | 3,780,546 | 3,438,641 | 3,673,526 | 3,956,699 | 3,962,425 | 13.11% | 0.14% | 4.81% |
| 3.1-5 Years | 16,914,435 | 15,618,734 | 15,654,028 | 15,406,573 | 15,077,214 | 49.88% | -2.14% | -10.86% |
| 5.1-10 +Years | 4,764,019 | 4,530,694 | 4,924,748 | 6,122,722 | 6,025,591 | 19.94% | -1.59% | 26.48% |
| **Total** | **31,131,005** | **28,245,060** | **28,637,233** | **30,067,134** | **30,224,428** | **100.00%** | **0.52%** | **-2.91%** |

***Source:*** *NCR (2019)*

The decrease in unsecured debts is complemented by a decline in overdrafts by 21.15%, while credit cards and garage cards increased by 7.93% (Table 8) (NCR, 2019). Credit cards and overdrafts play an important role in juggling with debts. James's findings in South Africa in 2014 indicated that consumers hold multiple credit cards, overdrafts, and store accounts, while they borrow microloans from formal and informal credit providers (James, 2014). In what follows, consolidation loans are discussed in detail as a process of deepening indebtedness, as debt is used to pay other debt. I argue that the growth in unsecured debts may not necessarily increase consumption but may suggest that debt is being used for non-productive and non-consumption purposes, which increase debt instead of reducing it.

**Table 8: Credit facility between Q4-2018 and Q4-2019**

| Agreements | 2018-Q4 R000 | 2019-Q1 R000 | 2019-Q2 R000 | 2019-Q3 R000 | 2019-Q4 R000 | 2019-Q4 % Distribution | % Change (Q4/Q3) | % Change (Y/Y) |
|---|---|---|---|---|---|---|---|---|
| Credit and/or Garage cards | 9,601,366 | 10,136,110 | 10,324,687 | 10,992,923 | 10,362,574 | 48.64% | -5.73% | 7.93% |
| Bank overdraft | 3,649,257 | 3,332,108 | 3,269,108 | 3,522,732 | 2,877,395 | 13.50% | -18.32% | -21.15% |
| Services | 170,710 | 149,767 | 254,298 | 220,567 | 290,889 | 1.37% | 31.88% | 70.40% |
| Store cards | 6,061,435 | 4,204,760 | 4,882,716 | 5,430,500 | 5,531,879 | 25.96% | 1.87% | -8.74% |
| Other facilities | 2,188,061 | 2,441,168 | 2,377,239 | 2,405,692 | 2,243,711 | 10.53% | -6.73% | 2.54% |
| Total | 21,670,829 | 20,263,914 | 21,108,047 | 22,572,414 | 21,306,448 | 100.00% | -5.61% | -1.68% |

***Source:*** *NCR (2019)*

## 4.3 CONSOLIDATION LOANS

Growth in unsecured credit leaves no doubt that a greater percentage of the long-term loans being issued are being used to pay other loans. Since 2010, loans between 3.1 and five-year loans continued to increase (SAHRC, 2017), while those between 5.1 and 10+ years are increasing faster (NCR, 2019). The major unsecured lending banks, Capitec and African Bank have started increasing the loan periods beyond five years (Leriba, 2013). This trend may continue to dominate the consolidation loan domain, resulting in a decline in other areas. In this section, I discuss the effects of consolidation loans.

Increased risks in the credit market saw financial institutions offering financial remedies. Bolton *et al*. (2011) find it ironic that financial remedies tend to involve the use of loans including consolidation loans, payday loans, credit cards and home equity loans. Remedies should be aimed at reducing the risk rather than prolonging the effects of risk by pushing these risks into the future. To demonstrate what consolidation loans, do, I commence with discussing the drivers of consolidation loans, followed by consolidation loan marketing, which creates personal finance myths and lay theories. I conclude with the downside of consolidation loans drawing from his experience and the literature review.

### 4.3.1 Drivers of consolidation loans

There is demand- and supply-side drivers for consolidation loans. This includes marketing (Bolton *et al*., 2011; Perry and Motley 2009; Williams, 1999), debt literacy (Nanziri and Leibbrandt, 2018; Disney and Gathergood, 2011; Lusardi and Tufano, 2009) and intertemporal choices (Jesus and Oliveira, 2014). In Chapter 3, I discussed the effects of unmanageable debts.

The desire to escape the debt trap often becomes counter-productive if remedies are loan based (Bolton *et al*., 2011). For Bolton *et al*. (2011), consolidation loans are intended to help consumers with mounting debt problems by combining several debts into a single loan. The assumption of lower interest rates is often misunderstood in South Africa, where pricing of credit follows a distinct classification, as will be discussed in Section 4.2.2. The effects of debt literacy are explained in detail in Section 4.2.

Demand-side drivers were determined through interaction with consumers seeking consolidation loans and literature review on consolidation loans. Consumers with mounting debt problems often express desires to lower interest rates, reduce monthly instalments, have one convenient payment plan to avoid missing payments and to settle accounts and get settlement discounts. Others are of the opinion that consolidation loans will improve their affordability, credit scores and the ability to qualify for home loans. Paying arrears on assets and avoiding repossession were expressed by other consumers, while most of the consumers voiced the desire to become debt-free.

There is an undeniable desire to escape debt traps, as expressed by consumers. Most of these desires are exploited by marketers who tend to fuel the desire and hope for consumers. In Chapter 3, I pointed out the effects of hope and desire, as expressed by James (2014). This hope tends to create a conducive environment for credit providers' predatory behaviour. Consolidation loan marketing is criticised for overstating the benefits of consolidation loans while downplaying the downside of such loans (Bolton *et al*.,2011). Bolton *et al*. (2006) argue that the use of consolidation loans as remedies may undermine risk perceptions while increasing risky behavioural intentions. They maintain that the remedies undermine risk avoidance, which may result in negative consequences for consumer welfare.

### 4.3.2 Consolidation loan marketing

Consolidation loans are marketed as a remedy for financial difficulties in South Africa. Many consumers are worried about the number and size of their debts and wish to have better financial circumstances. Rising financial risks in the credit market have led financial institutions to respond with remedies (Bolton *et al*., 2011). In their earlier work, Bolton *et al*. (2006) deliberated on narratives that claim to moderate the problem. They criticised the use of consolidation loans as remedies. The focus of financial remedies should be to assist consumers to pay down their debts (Perry and Motley, 2009). Remedies have resulted in the manipulation of the credit provider's balance sheets that shift liabilities into assets. There is no actual paying down of debts, but rather a shift from liabilities of one to an asset of the other. Most of these remedies involve loans, including consolidation loans, payday loans, overdraft facilities and revolving credit facilities (Lee *et al*., 2019; Davies *et al*., 2019; Bolton *et al*., 2011).

The use of debt to solve debt problems shows the shortcoming of the debt trap that maintains the consumers within a debt cycle (Lee *et al*., 2019; Hembruff and Soederberg, 2015). Debt delays financial exclusion while eliminating barriers to capital accumulation expansion (Soederberg, 2014). The intertemporal choices discussed in Chapter 3 relate to the downside of consolidation loans. There are trade-offs between short-term relief and long-term financial burdens, as shown by the total interest paid (Jesus and Oliveira, 2018; Bolton *et al*., 2011). The long-term effects of consolidation loans include higher overall interest paid in the end. Marketed interest rates are barely achieved when granting the loans. Compound interest principles apply with longer payment terms. Shifting the payment burden into an unknown future means consumers are likely to suffer from changing circumstances they cannot control.

In the United States, consolidation loan advertisements mentioned longer terms and lower interest rates (Bloom *et al*., 2011). Consumer financial literacy influences the capacity to make financial decisions (Bolton *et al*., 2011). These findings are true to the consolidation loan adverts in South Africa (Ssebagala, 2016; Fakoti and Oni, 2014). Marketing downplays the downside of consolidation loans, making them appealing to consumers. The small portion of consumers that qualify for consolidations ends up worse off than they were before. The prescribed interest rates and initiation fees leave consumers using high-cost loans to settle low-cost credit over an extended period. Bolton *et al*. (2011) argue that in simple terms, consolidation loans mean more debts and not less. However, an appropriate response to marketing can be shaped by the financial capabilities of consumers.

Consolidation loans can manage risks of missing payments by combining accounts into one payment, which appeals to consumers. This approach to managing and reducing risks undermines financial protective behaviour (Mainala *et al*., 2017; Rogers and Greenfield, 1999). Combining debts does not address the socio-economic causes of financial distress. Bolton *et al*. (2011) argue that the net effect may raise a moral hazard and risk compensation. Moral hazard explains the diminishing incentives to guard against risk and risk compensation explains human behaviour against perceived risk. Consumer behaviour is determined by the level of perceived risk. Consumers are more careful when the perceived risk is higher and less careful when they feel more protected. As a result, consumers trade away safety gains. A continuation of risky behaviours may result in consumers exposed to higher risks resulting from new loan agreements. For example, exposure to consolidation loans resulted in university students increasing the use of credit cards in America (Bolton *et al.*, 2011).

The use of consolidation loans to settle revolving credits (store cards, credit cards and overdrafts) may result in more risks of defaults. Consumers may use the accounts after they have settled them, which means they must pay the new loan and the revolving accounts. There is no legal framework that guides the use of consolidation loans in South Africa. The absence of legislative frameworks that stipulates the use of consolidation loans means they are just another unsecured credit agreement. However, financial institutions consider consolidation loans as a new credit category rather than debt to settle a debt. A legislative framework is required that must ensure the monitoring of all loan products that are sold as debt relief (Goodman, 2010).

### 4.3.3 Consolidation loan myths and lay theories

Consumers start with juggling their debts until such behaviour becomes either expensive or unbearable. The idea of paying off debts creeps in and consumers start looking for consolidation loans. The theory and illusion of money individualise the experience of money (Soederberg, 2014). People may allow family members and friends to know any part of their lives, but not about their money. This argument illustrates the need to understand money beyond the economic interpretation in a way that denaturalises and deconstructs debt (Soederberg, 2014). Here I make a case that consumers believe that borrowing money to pay debts does not constitute debt but rather a debt solution. For some, getting a consolidation loan is the beginning of the journey towards financial freedom. The overlapping myth that drives consolidation loans is based on the ideology that one debt is better than multiple debts. Consumers are convinced that the interest rates on their current debts are higher than that of a consolidation loan. This is synonymous with the findings of consolidation loans marketing discussed in Chapter 5.

Consolidation loans are either not considered as debt or loans but as a solution to over-indebtedness. Lay theories are largely related to the myths that are built on financial illusions and misunderstanding. There are no strict conditions by which consolidation loans can benefit consumers. Credit providers' websites encourage consumers to settle credit cards using a consolidation loan, but in South Africa, the prescribed interest rate for consolidation loans is higher than that of credit cards. A consumer may not close the credit card after settling it, leaving them with two instalments. Long-term costs of consolidation loans either make these loans a myth or an unrealistic loan that occupies people’s minds. Their existence as a debt solution is questionable given that they are not a standalone credit subsector. Credit providers are profit-driven, resulting in the inevitability of predatory behaviour. Settling a credit agreement with an interest rate of 21% with one that is 28% entails increasing the interest in the short and long term (NCR, 2016). Overall repayment will be more than the original debt.

### 4.3.4 The downside of consolidation loans

The increase in unsecured lending has been characterised by an increase in long-term loan agreements. Unsecured lending increased by 1.25% on a year-on-year basis between the last quarter of 2018 and 2019 compared to a 5.41% increase in the previous quarter (NCR, 2019). A closer look suggests that the growth was mainly constituted by long-term unsecured loans between 5.1 and 10 years, which increased by 26.48% over this same period (NCR, 2019). This growth does not necessarily mean consumption growth. Bolton *et al*. (2011) argue that there are trade-offs between short-term relief and long-term financial burdens. One obvious trade-off is the extension on loan repayment terms together with a higher interest rate (Williams, 1999). Amar, Ariely, Ayal, Cryder and Rick (2011) argue that consumers tend to underestimate how interest compounds over time.

Financial literacy has often been raised as a concern globally, as will be discussed in the following section. Bolton *et al*. (2010) discovered that consolidation loan advertisements did not mention the longer repayment terms and higher interest rates. In South Africa, the interest rates of consolidation loans are among the highest interest rates compared to other credit subsectors, as will be discussed below with respect to the cost of credit. Fakoti (2015) highlights the hassle-free properties associated with loans advertised to pay off debts. This sentiment is shared by Bolton *et al*. (2011) who argued that the one-sided nature of consolidation marketing is appealing to consumers. Their argument goes on to state that this kind of one-sidedness may induce a sense of downplaying the negative effects of consolidation loans on consumers.

Avoiding risks may be viewed as unnecessary if a remedy exists. Risk compensation may be triggered, resulting in consumers continuing to engage in risky behaviours (Amar, 2011; Bolton *et al*., 2011). This is evident in consumers who have used consolidation loans to settle credit cards or retail accounts who end up using the cards again. In some cases, consumers have been reported to increase or acquire additional credit cards after settling them using a consolidation loan. Developing practice in South Africa is the topping up of existing loans, which is common with banks including Capitec, Nedbank, African Bank, FNB and other non-banking institutions such as Bayport. These institutions often settle the existing loans for their clients and offer them additional money, which increases the term of the agreement and monthly instalments.

The effects of consolidation loans may vary across situations and consumers (Bolton *et al*., 2011). Williams (1999) argues that these loans are more complex than what consumers perceive them to be. Moorman and Garasky (2008) argue that because these loans leave consumers worse off, they are facing regulatory scrutiny. In South Africa, consolidation loans are rarely criticised or face any scrutiny. I argue that the relaxing of regulations and failure of scrutiny by authorities allow for predatory behaviour by credit providers. In Chapter 3, I highlighted the difference between reckless lending and predatory lending. Predatory lending takes advantage of consumers' situation and in many cases, it assumes consumer naivety and the superiority of credit providers over consumers with low debt literacy.

### 4.3.5 Costs of credit per subsector

This section covers financial products and their pricing per subsector as governed by the National Credit Regulator (NCR). The National Credit Act 34 of 2005, Chapter 5, part C, stipulates the consumer's liability, interest, and charges (NCR, 2006). A credit provider may not charge the consumers any fees that are more than the maximum prescribed by the Act. Credit providers are prohibited from charging prices that are higher than the price for the same product or service on an ordinary course of the business day on a cash basis (NCR, 2006). A consumer is liable for the principal debt, initiation fee, service fee, interest, credit life insurance, default administration charges and collection charges. Regulation 42(2) of 2015 in the NCA reduced costs of credit. An overall drop in the prescribed interest rate was achieved on all credit subsectors except incidental credit.

Lusardi and Tufano (2009) argued that there is a low appreciation of compound interest. For McNiven (2019), receiving or paying interest distinguishes the poor from the rich – the poor pay interest and the rich receive it. Table 9 shows the maximum prescribed interest rate permissible by the NCR. Maximum prescribed interest rate is compounded annually as follows: 19% for mortgage agreements, 21% for credit facilities, 28% for unsecured credit transactions, 34% for developmental credit, 5% for short-term transactions and 24% for other credit agreements (NCR, 2016). The contrast between the interest rates points out that the growth in unsecured debts entails more interest rates payable by consumers, while it is suggesting that the use of unsecured debts to pay other credit subsectors increases the costs to the consumers. A contrast between credit facilities and unsecured debts shows a 7% difference in interest rates. The use of unsecured credit, therefore, in the form of consolidation loans to pay credit facilities results in more debt and interest paid.

**Table 9: Maximum prescribed interest rates per subsector**

| Sub-sector | Previous maximum prescribed interest rate | New maximum prescribed interest rate | Calculated previous maximum prescribed rate | Calculated new maximum prescribed rate | Difference (interest rate) | Difference (percentage) |
|---|---|---|---|---|---|---|
| **Mortgage agreements** | [(RR x 2.2) + 5%] per year | RR +12% per year | 20.40% | 19% | -1.40% | -6.86% |
| **Credit facilities** | [(RR x 2.2) + 10%] per year | RR + 14% per year | 25.40% | 21% | -4.40% | -17.32% |
| **Unsecured credit transactions** | [(RR x 2.2) + 20%] per year | RR + 21% per year | 35.40% | 28% | -7.40% | -20.90% |
| **Developmental credit agreements** | | | | | | |
| - for the development of a small business | [(RR x 2.2) + 20%] per year | RR + 27% per year | 35.40% | 34% | -1.40% | -3.95% |
| - for low income housing (unsecured) | [(RR x 2.2) + 20%] per year | RR + 27% per year | 35.40% | 34% | -1.40% | -3.95% |
| **Short term credit transactions** | 5% per month | 5% per month on the first loan; and<br><br>3% per month on subsequent loans within a calendar year | 5% | 5% and 3% | Depends on the sequence of the loan | 0% for first loan within the calendar year -40% for sub-sequent loans within the calendar year |
| **Other credit agreements** | [(RR x 2.2) + 10%] per year | RR +17% per year | 25.40% | 24% | -1.40% | -5.51% |
| **Incidental credit agreements** | 2% per month | 2% per month | 2% | 2% | 0% | 0% |

***Source:*** *NCR (2016)*

Initiation fees represent a cost that one needs to consider when taking one loan to pay another loan. Consolidation loan marketing emphasises the benefits of having one interest rate and one administration fee. It ignores the costs of initiation fees. Taking a new loan to settle existing debt means one will pay a new initiation fee on the new credit agreement when they had already paid initiation fees for the existing credit. Consolidation loans are unsecured hence, maximum initiation fees as per Regulation 42(2) is R16.00 per credit agreement plus 10% of the amount over R1 000, but never to exceed R1 050 (see Table 10).

**Table 10: Maximum initiation fees per subsector**

| Sub-sector | Previous maximum initiation fee | New maximum initiation fee | Difference in base initiate fee amount (a) | Diffe-rence in excess percen-tage (a) | Diffe-rence in excess amount (a) | Diffe-rence in capped amount (b) |
|---|---|---|---|---|---|---|
| **Developmental credit agree-ments** | | | | | | |
| – for the development of a small business | (a) R250 per credit agreement, plus 10% of the amount of the agree-ment in excess of R1 000 (b) But never to exceed R2 500 | (a) R275 per credit agreement, plus 10% of the amount in excess of R1 000 (b) But never to exceed R2 600 | R25.00 | NA | NA | R100.00 |
| – for low income housing (unse-cured) | (a) R500 per credit agreement, plus 10% of the amount of the agree-ment in excess of R1 000 (b) But never to exceed R2 500 | (a) R550 per credit agreement, plus 10% of the amount in excess of R1 000 (b) But never to exceed R2 600 | R50.00 | NA | NA | R100.00 |
| **Short term credit transactions** | (a) R150 per credit agreement, plus 10% of the amount of the agree-ment in excess of R1 000 (b) But never to exceed R1 000 | (a) R165 per credit agreement, plus 10% of the amount of the agreement in excess of R1 000 (b) But never to exceed R1 050 | R15.00 | NA | NA | R50.00 |
| **Other credit agreements** | (a) R150 per credit agreement, plus 10% of the amount of the agree-ment in excess of R1 000 (b) But never to exceed R1 000 | (a) R165 per credit agreement, plus 10% of the amount in excess of R1 000 (b) But never to exceed R1 050 | R15.00 | NA | NA | R50.00 |
| **Incidental credit agreements** | Nil | Nil | NA | NA | NA | NA |

***Source:*** *NCR (2015)*

Consumers barely carry out the cost-benefit analysis to account for these costs when considering consolidation loans. Costs of credit make consolidation of debts complex. Consumers distance themselves from being calculative rational actors according to moral logic; instead, they seek solutions without calculations (Polleta and Tufail, 2014). A consolidation loan is perceived as an option to ease the debt burden regardless of the costs. Moral logic coupled with debt illiteracy may result in an unsustainable precarious credit market system. Considering the interest rates, initiation fees and service charges, it is safe to conclude that consumers pay more charges towards a consolidation than to continue paying their current debts.

## 4.4 CONCLUSION

This chapter commenced with the analysis of literature unsecured lending in South Africa. I used the CCMR to demonstrate the growth of long-term unsecured loans resulting in a decrease in most short-term agreements and rise in long-term loans. There was a 26.48% growth of 5.1 to 10-year agreements while the 3.1 to 5-year agreements decreased by 10.86% between the fourth quarter of 2018 and fourth quarter of 2019 (NCR, 2019). This suggested that consumers are accessing longer- term unsecured loans. Growth of long-term loan agreements confirms the growth in consolidation loans. Observing the shift in the length of loan agreements suggests that growth in unsecured credit does not necessarily translate into an increase in consumption, but a continuation of the non-productive use of debt to pay the debt. Noticing that there is a growing concern over the level of indebtedness within the middle class, debt accumulation by income shows that consumers with more than R15 000 income per month accumulated most of the unsecured debts. Stringent qualification criteria for home loans leaves more people resorting to unsecured credit.

One-sided marketing of consolidation loans such as lower interest rates, single convenient payment and hassle-free settlements drives personal financial myths. This leaves consumers believing that one loan is better than multiple debts. In other cases, consumers are left believing that settling their current debts will leave them debt-free. The downside of consolidation loans includes the overall interest payable, transferring debt repayment burdens into the future and increasing risk behaviours. These have negative consequences for consumer welfare (Bolton *et al*., 2006). The extension in the loan agreements together with compound interest over time demonstrates that consolidation loans leave consumers worse off, with more debt, not less.

Empirical evidence shows the effects of low debt literacy leaves consumers susceptible to predatory lending. The costs of ignorance suffered by consumers are largely attributed to the failure to carry out self-assessments. To emphasise the ineffectiveness of consolidation loans to manage interest rates, the costs of credit was discussed, concluding that consolidation loans have higher interest than credit facilities, mortgages, secured credit and short-term agreements. Using consolidation loans to settle credit cards, store accounts, vehicle finance and home loans will result in higher interest payable apart from the initiation fees that are required for any new credit agreement. Chapter 5 details the finds of the research.

# CHAPTER 5
# FINDINGS AND DISCUSSION

## 5.1 INTRODUCTION

The research objectives were to demonstrate how household over-indebtedness and debt repayment burdens affect individuals and households in South Africa. An increase in unsecured lending in South Africa raises concern over the sustainability of the credit market system and the well-being of households. These objectives were set out to investigate how the use of credit to pay credit is increasing non-productive and non-consumptive use of credit. Instead, loans to pay loans have created more indebted individuals instead of mitigating household over-indebtedness. To meet this objective, the research questions focused on the effects of household over-indebtedness globally and in South Africa. The overarching question was: How does the use of consolidation loans exacerbate the over-indebtedness of the users of consolidation loans? The three sub-questions were: (i) Why has over-indebtedness become such a major challenge, globally and in SA? (ii) Why have consolidation loans become the primary mechanism for dealing with over-indebtedness? (iii) What do consolidation loans achieve and what are the impacts on consumers?

This section details the research results starting with consolidation loans contextualisation. I give an account of consolidation loan marketing on the websites of major financial institutions, including African Bank, FNB, Standard Bank, Nedbank, Old Mutual Finance, Bayport and Letsatsi. Credit providers' websites were useful in providing insight into what informs consumers when making consolidation loan inquiries. Interviews with Financial Consultants at IDM Group provided insights into the experience of professionals that deal with over-indebted consumers. Financial assessments with consumers were carried out to assess the feasibility of consolidation loans. A mixed-methods research methodology was adopted in a continuous process that involved discussions of financial assessments with the consumers and financial consultants. Financial assessments used quantitative and qualitative methodologies to draw up and discuss consumer budgets. The chapter concludes with the findings and interpretations of the research.

## 5.2 CONSOLIDATION AND PROJECT CONTEXT

Household over-indebtedness has emerged as a challenge in the 21st-century global financialised economy. Governments, financial institutions, households, and policymakers are seeking solutions to mitigate household over-indebtedness. Unfortunately, most of the solutions for over-indebtedness include the use of loans to pay other loans (Lee *et al*., 2019). These "loans to pay loans" include consolidation loans, payday loans, credit cards and overdrafts (Bolton *et al*., 2011). These solutions tend to increase vulnerability instead of mitigating risks (SAHRC, 2017; Leriba, 2013). While the use of credit to pay credit increases inequalities, the accumulation of unsecured debts by consumers with gross income above R15 000 a month raises concerns in South Africa (SARB, 2020; NCR, 2019). These are salaried consumers (James, 2014), most of whom are urban middle class (Hurwitz and Luiz, 2007). Leriba (2013) stated that more than 50% of unsecured debts granted are consolidation loans. Consolidation loans were defined in Chapter 4 to mean one big loan to settle multiple debts and pay one loan back.

The research found the term "consolidation loan" problematic in that credit providers do not list these loans as consolidation loans. Instead, there are different levels and practices of consolidation loans that are being practised in South Africa now, including topping up and settling of existing loans by credit providers. This practice is common with most credit providers, including Capitec, African Bank, FNB, Nedbank, Old Mutual, Bayport, among others. Consolidation loans are therefore taken to mean debt used to pay other debts. Consumers seeking consolidation loans have been using other loans to settle existing debts and then seek one big loan and in other cases, they are seeking a way out of their debts. To assume that consolidation loans are big loans that combine multiple debts may overlook the other practice of consolidation loan practices including the use of personal loans to pay other loans.

There is no doubt that consumers express the desire to escape from debt spiral traps, but the use of debt as a remedy has left millions more over-indebted. Not only does this pose a long-term threat to households, but it also leaves the credit market reflecting growth in credit that is being used for non-productive and non-consumption purposes as explained in Chapter 4. In Chapter 3 I argued that even in tightly managed credit market systems, consumers are still faced with financial difficulties at some stage in their life such as ex-post misfortune, adverse triggers, and unanticipated circumstances (Ssebagala, 2016). Any financial solutions envisioned by consumers should not leave consumers worse off. Household use of credit in emergencies is usually coupled with the inability to calculate the cost of credit (Lee *et al*., 2019).

Financial capabilities of consumers to respond to aggressive consolidation loan marketing requires debt literacy (Bolton *et al*., 2011). Section 3.3.3 discussed the role of debt literacy regarding the work of Lusardi and Tufano (Lusardi and Tufano, 2009), for instance, the ability of consumers to state the interest rates of consolidation loans. Consumers refer to lower interest rates that are stated on consolidation loan marketing but have a low appreciation of interest rates of their existing credit. The common belief is that the interest that they are paying now is more than the interest rate of the consolidation loan. The level of consumer debt literacy shaped their perceptions about the concept of money, including what does or does not constitute a debt, the morality of debt repayment, and the power of debt itself in production and reproduction of indebted subjects that live precariously.

A closer look at consolidation loan marketing was done through visiting the websites of financial institutions. Banks advertise consolidation loans as one of their financial products. One-sided marketing of consolidation loans on credit providers' websites was confirmed. The researcher's inquiry into the sustainability of consolidation loans was three dimensional. Consolidation loans marketing messaging of financial institutions websites, consumers' debt experience and financial goals, and financial consultants' perspective on consolidation loans. A total of 10 financial consultants, 10 major financial institution websites and a total of 50 financial assessments were contacted with clients.

## 5.3 CONSOLIDATION LOAN MARKETING FINDINGS

To investigate the messaging of consolidation marketing, I visited credit providers' websites to search for their description of consolidation loans. A qualitative approach was applied to analyse the language and terms used by financial institutions in the marketing of consolidation loans. A web content analysis was carried out to test the marketing of consolidation loans. Details of the methodology are described in Chapter 2. Chapter 3 argued that one-sided marketing of consolidation loans ignores the downside of such loans (Bolton *et al*., 2011). My investigation seeks to understand what consumers see when they are looking for debt solutions by searching for consolidation loans. A "consolidation loans" Google search was conducted regularly. The exercise was repeated between January 2020 and April 2020 to see if anything changed. Major changes noted were the debt review companies advertising debt consolidation. Financial institutions appeared on the 4th to 5th on average. The major five banks' websites and an additional five top featuring microlenders were addressed in the analysis. Table 11 below shows the financial institutions investigated and the search results.

**Table 11: Financial institutions' consolidation loan marketing**

| Name of institution | Type of institution | Information on the website |
|---|---|---|
| Nedbank | Financial Institution (FSP) | "Consolidate up to 3 of your loans, enter the amount that you would like to apply for and get the qualification and various repayment options." (https://www.nedbank.co.za/content/nedbank/desktop/gt/en/personal/tools-and-guidance/calculators/loan-consolidation-calculator.html |
| ABSA Bank | Financial Institution (FSP) | "We can help you control your debts and manage your finances better. Absa will review your financial situation and provide possible solutions to regain back financial control. The sooner you act, the better." (https://www.absa.co.za/personal/loans/manage-my-debt/explore/.) |
| Standard Bank | Financial Institution (FSP) | "Replace multiple payments with one single manageable account. Avoid multiple interest rates and fees by consolidating your debts. Consolidation will give you one interest rate and lowers your monthly repayments." (https://www.standardbank.co.za/southafrica/personal/learn/debt-consolidation) |
| Old Mutual Finance | Financial Institution (FSP) | "Consolidation loans simplify things by lumping your debts into a single loan. Simplifies the payment into one. Avoid missed payments, have a single interest rate." (https://oldmutualfinance.co.za/debt-consolidation-loan) |
| Direct Axis | Financial Institution (FSP) | "Simple one payment, improve your cash flow, settle on your behalf, take the remaining money to use as you please, fixed repayments." (https://www.directaxis.co.za/loans/consolidation-loan) |

| Name of institution | Type of institution | Information on the website |
|---|---|---|
| African Bank | Financial Institution (FSP) | "Simplify your debts with one Consolidation loan, combine up to 5 loans into one single consolidation of up to R250K, Lower repayments, Flexible terms, convenient process." (https://www.africanbank.co.za/en/home/product-consolidation-loan/) |
| Letsatsi Finance and Loan | Microlender (FSP) | "Help manage your debt, combine smaller loans into one monthly instalment. This will assist if you are battling to manage all your loans and debt, in arrears with your accounts and/or been listed on the credit bureau." (https://www.letsatsifinance.co.za/services/personal-loans/debtconsolidation/) |
| FNB | Financial Institution (FSP) | "Gain more control over your credit, Credit switch, combine qualifying loans into one personal loan, one lower payment, one interest, one set of fees, less stress." (https://www.fnb.co.za/creditswitch.html) |
| Capitec Bank | Financial Institution (FSP) | "Benefits of consolidating debts make debt repayment easier, reduce the monthly repayment, maintain, and protect a good credit profile." (https://www.capitecbank.co.za/bank-better-live-better/articles/good-for-credit/the-benefits-of-consolidating-debt/) |
| Bayport Financial Services | Microlender (FSP) | "Let us help you consolidate your debt into one affordable debt solution that will offer you immediate debt relief with a Bayport Debt Consolidation Loan, by helping you become debt-free faster while improving your overall financial wellness and credit score." (https://www.bayportsa.com/products-services/debt-consolidation/.) |

An analysis of credit providers' websites highlighted one-sided consolidation loan marketing that emphasized on the benefits such as lower interest rates, convenient payment plan, hustle free settlement and improving credit rating. All institutions speak of a single and convenient payment plan. The Nedbank website does not offer comprehensive information on consolidation loans. Instead, it states that they can consolidate up to three loans between R0 and R300 000. While there is not much information provided on the website, their disclaimer clearly states that the interest rate given by the online calculator should be confirmed by a Nedbank branch.

The African Bank website states that a consolidation loan can simplify one's debt. They can combine up to five loans into one single consolidation loan of up to R250 000 at a lower payment. They further state that consolidation loans lower repayments by locking interest on multiple loans into a fixed interest rate and fewer fees. They offer flexible terms between 12 and 72 months. African Bank claims that the process of consolidation is convenient, requiring no settlement quotes; instead, they provide proof that debts have been settled.

Unlike most of the credit providers, ABSA does not offer any consolidation loans on their website. Instead, they raise financial well-being questions for consumers where they state that they may be able to assist. They suggest three options: getting financially fit, managing debt, and debt counselling. Getting fit involves negotiating lowered instalments on the debts that a consumer has with them and other credit providers. Managing debt states that there are ways to reduce debts to ensure that money lasts until the end of the month. Their last suggestion is the debt counselling process, citing the NCA of 2007.

According to the Standard Bank website, debt consolidation reduces multiple monthly payments that have different interest rates into a single manageable account. There is limited information on the qualification of the consolidation loan; instead, they suggest that consumers get in touch with their Debt Care Centre.

Direct Axis states that instead of having multiple accounts, their consolidation loan can combine the loans into one single monthly payment. They suggest that a consolidation loan may improve cash flow. Direct Axis goes further to state that they will settle the existing debt on behalf of the consumer, which reduces the hassle. The difference between the debt settled and the loan granted will be offered to the consumer for personal use.

Letsatsi states that a consolidation loan may pay off several smaller loans to assist one to manage loans, arrears and adverse listing on credit bureaus. Credit switch from FNB offers consolidation of qualifying various credit providers into one convenient personal loan. The website promises to reduce the hassle of dealing with multiple credit providers and help consumers to manage credit.

Capitec states that consolidation loans make debt repayment easier. They explain that it reduces monthly instalments, the risk of missing payments, and protects the credit profile. Store cards and vehicle payments are referred to as debt burdens that can be treated with taking one loan and settling the existing debts.

Bayport states that one can settle existing debts while applying for a personal loan. They claim that they will do the legwork, no settlement figures required, and that settling debt increases the loan available for the consumer. Bayport states that they can assist consumers to be financially free. The researcher's findings confirm the one-sided nature of consolidation loan marketing. All credit providers claim to help consumers to better their financial situations through consolidation loans. The idea of one payment, lower interest rates and lower monthly payments is attractive to consumers who are seeking to ease their financial burdens.

Old Mutual refers to a single administration fee, single interest rate and peace of mind. None of these websites discusses the initiation fees involved in the issuing of the loans. Only Old Mutual states the extension of the loan terms, which was also observed with Capitec and African Bank.

The suitability of consolidation loans heavily depends on the terms of the current loans. Should one have a long-term loan already, the only benefits can be the trade-off between the loans' interest rates. However, most of these credit providers charge the same interest rate on these loans, with Old Mutual and Direct Axis charging between 28% and 31% interest per annum. Some websites mentioned the availability of funds from the consolidation loan as a surplus that the consumer could use for personal use. The marketing messages are presented in a word cloud (see Figure 10). The mapping shows how debt, loan(s), one monthly instalment are commonly mentioned by credit providers. The map also shows the use of words like repayment, single, consolidation, consolidate, etc., as they are frequently mentioned by credit providers.


**Figure 10: Consolidation of loan marketing**

Consolidation loans marketers are depicting that they will assist consumers to manage credit scores and improve cash flow. Bayport Financial Services states that their consolidation loans can put more money in the consumers' pockets. There was limited disclosure of costs and liabilities of consolidation loans on the websites analysed. Credit providers encouraged consumers to take a consolidation loan and settle credit cards and store accounts.

These marketing strategies have obviously shaped consumers' perceptions of consolidation loans and the frustrations they express when they are declined by the credit providers. The inability of credit providers to mention qualification criteria on the websites or at least discuss the downside of consolidation loans questions the idea that credit providers are there to help consumers. Internet searches highlighted the moral confusion created by consolidation loan marketing. The websites do not stipulate the qualification criteria, hides the terms and conditions while offering instant calculations that are meant to create leads for the institutions.

Some websites report that consolidation loans can improve consumers cash flow. Standard Bank suggests that consolidation loans prevent consumers from missing payments. This assumes that consumers will not forget one payment. Such a notion is misleading in that it justifies consumers for missing payments when there is more than one debt obligation to pay.

## 5.4 CONSUMER PERSPECTIVES ON CONSOLIDATION LOANS

Perceptions of consolidation loans were observed during interactions with financially strained consumers seeking financial solutions. I was able to do this in his capacity as a debt counsellor at a firm that provides debt management solutions, including debt review, credit life insurance, life cover and financial education. These interactions tested the claims made about consumer behaviours in the relevant literature that was reviewed in previous chapters. Consumer perceptions of consolidation loans revealed the gap between the claims made by consolidation loan providers and realities of over-indebted individuals.

Data were collected from 50 clients mainly focused on terms, reactions, urgency, financial knowledge, the ability to acknowledge costs of credit, and overall debt repayment amounts. Data was collected through a telephonic interview that was carried out in the form of financial assessments. Calls were recorded for further analysis whenever the need arises. Further questions were asked to seek the consumers' perceptions of how a consolidation loan would help them to achieve their financial goals. Telephonic interviews were used to measure observable traits, including household size, income, marital status, gender and employment.

The research reports on consumers' perceptions and self-reported information on debt and financial experience. Sample criteria considered total outstanding debts of above R60 000. The researcher’s concern over debt accumulation by consumers with an income of more than R15 000 a month was maintained in his sample criteria. The sample also maintained the average income in South Africa (StatsSA, 2019) (Table 12).

**Table 12: Average monthly earnings**

| | May 2018 | Feb* 2019 | May 2019 | Q/Q Change | Y/Y Change |
|---|---|---|---|---|---|
| Average monthly earnings (including bonuses and overtime payments) | Rands | | | % | |
| | 20 433 | 20 859 | 21 432 | 2,7 | 4,9 |

***Source:*** *StatsSA (2019)*

The borrowing history of each consumer was assessed to understand borrowing and payment behaviours. The credit history was used to measure the total outstanding debts, monthly instalment, and trace prior use of debt to pay the debt. I discussed reasons for prior loans with consumers and if any of the big loans had been used to settle other loans. Total monthly instalments were measured against the net income provided by the consumer to determine debt servicing ratios. Debt servicing ratio is the percentage of consumers' net income used to pay debts. The sample of clients investigated had a debt servicing ratio of more than 65%, leaving participants with a disposable income of 35%. To complete the budget, living expenditure was compiled to determine whether a consumer is over-indebted or not.

Consumers' understanding of compound interest rate was measured using their existing credit agreements and interest rates. The largest unsecured debt was used to test compound interest understanding. Compound interest is the interest that is calculated on the principal debt plus interest accumulated in the previous periods of the loan. Compound interest depends on the principal borrowed, annual interest rate, the number of times the interest is compounded annually, and the terms of repayment. Figure 11 illustrates compound interest on loans and investments.

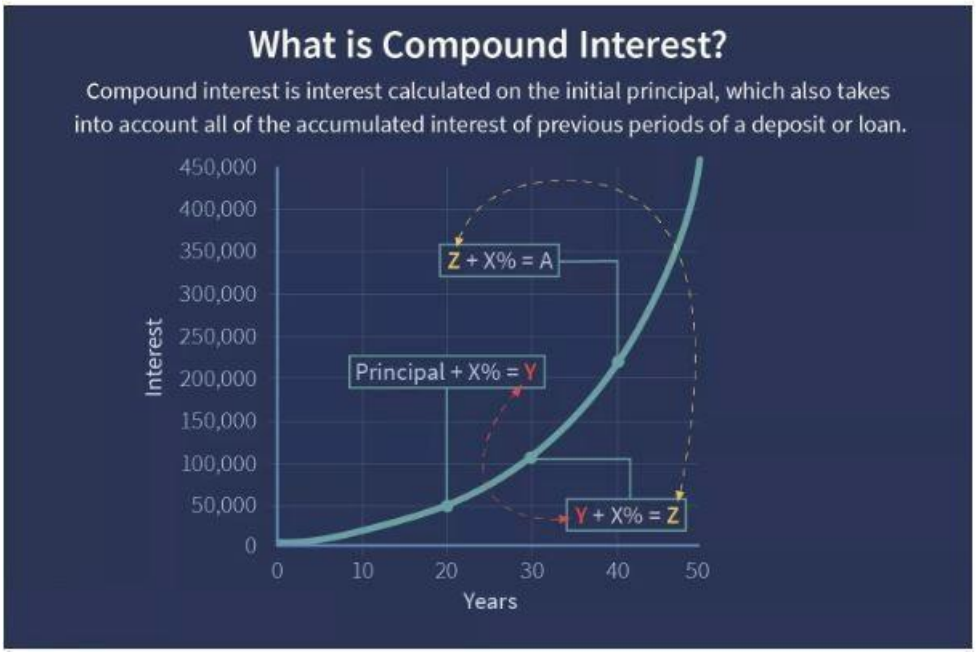


**Figure 11: Compound interest**

***Source:*** *https://www.investopedia.com/terms/c/compoundinterest.asp*

Consumers' perceptions of compound interest indicate perceptions on costs of credit. Consolidation loan marketing claims that by taking one loan and paying existing debts, one will have one interest rate and one admin fee to pay. The 50 consumers interviewed referred to the marketing messaging of consolidation loans and consumer perceptions. Consumers strongly believed that the interest rates on their current credit were higher than that of consolidation loans. This trend was apparent with consumers that may have obtained their current debts on preferential rates, such as employees of financial institutions. Reference to sub-sector interest maximum rates was discussed with consumers to validate when and how consolidation loans could benefit them. Consumers insisted that consolidation loan interest rates were the lowest on the market.

It was clear from the conversations that there was no cost-benefit analysis carried out by consumers. Instead, linear assumptions about the benefits of one big loan to settle existing debts and pay less dominated the discussions. Consumers were more concerned about getting the funds now rather than affordability over the long term. Micro-loans and payday loans were prevalent in the sample group. Psychological effects of payday loans were discussed where most consumers either acknowledged that they took the loans hoping that it would be a once-off and found themselves trapped in a never-ending debt cycle. The interview with Jane discussed in Section 5.6.2 highlighted the interaction between the consumer’s aspirations to become debt-free and credit provider predatory lending practices. Consumers were then asked how they see themselves getting out of the cycles. More than 80% of the respondents believed that a consolidation loan was an answer to their financial stress. Sub-sector interest rate discussions with consumers did not spark any informative results where consumers were not aware of the existence of credit sub-sectors. Instead, they believed that the interest rate of their existing debt was higher than the consolidation loan.

Secured and unsecured debts have different interest rates, as prescribed by the NCR. Secured debts (home loans and vehicle finance) were observed to be between 10.5% and 14% of the total debt of the sample group, while unsecured long-term loans from the five major banks were found to be between 17% and 29% of the total debt. Other credit providers in this category included Direct Axis, African Bank, Letsatsi Finance, Bayport and Old Mutual – their unsecured long-term loans averaged 28% to 31% of the total debt of the group.

Interest rate offerings on credit products were used to measure consumer understanding of the costs and benefits of using a consolidation loan to settle their existing credit. Some respondents believed that they could use a consolidation loan to settle their car or bond balances to reduce their monthly instalments. A comparison between unsecured and secured credit pricing was discussed with the consumers. They found it hard to understand that the comparison of secured and unsecured debt pricing makes the use of consolidation loans to settle home loans and vehicle finances impossible. The use of consolidation loans on credit facilities such as credit cards, revolving credit plans and overdrafts was discussed with consumers. The maximum prescribed interest rate on credit facilities is 21%, while the interest on a consolidation loan is 28%. Despite this, consumers strongly believe in marketing messages.

## 5.5 FINANCIAL CONSULTANTS' PERSPECTIVES

Financial consultants believed that the granting of consolidation loans was predatory. They expressed concerns over consumer fixation on the idea that they would eventually find a loan that would settle their debts. Consultants confirmed that their clients had either used some sort of debt to pay debt previously and they would justify a consolidation loan as their goal. Consumers use credit cards, overdrafts, personal loans, and informal borrowing to meet their monthly instalments. I concluded that consolidation loans were essentially a highly believable myth, while also highly problematic because it allows consumers to believe that they can use bigger loans to settle their debts. The perpetuation of this belief resulted in multiple rejections of consumer applications. Financial consultants reported that their clients had attempted at least four times or more to access a consolidation loan without any success. This created a sense of shame and anxiety while consumers remained hopeful and discredited any facts presented to them on why using a consolidation loan would not solve their problems. In the interview recorded in Section 5.5, John highlighted that having a consolidation loan would make him 'live again'. Having multiple debts was often referred to as the problem and not the debt itself.

## 5.6 FINANCIAL ASSESSMENTS WITH CONSUMERS

More women were willing to discuss their financial situations than men. Consumers were profiled based on gender and marital status which distinguished single financial assessments versus household financial assessments. Table 13 shows the sampling frequency of the single assessments. It should be maintained that the frequency does not reflect the percentage of women to men that are over-indebted, but the sample that was randomly selected for the study. The table below highlights the single assessments where 16 male clients and 23 female clients, making a total of 39 clients.

**Table 13: Client gender frequency table**

| Gender | Frequency | Percentage |
|---|---|---|
| Male | 16 | 41% |
| Female | 23 | 59% |
| Total | 39 | 100% |

Telephonic financial assessments were guided by the NCA Act 34 of 2005, Section 79 (NCR, 2006). To understand the consumer situation, an average of about 30 to 45 minutes was taken with each client to establish their financial situation. Below is an outline of the nature of the assessments carried out with a client hereby referred to as John. John was looking for a consolidation loan to escape the payday loan cycle that he was trapped in. John stated that payday loans were the only way that he would survive as his income is not sufficient to meet his living expenditure. John also owed money to informal credit providers. John strongly believed that if granted a consolidation loan, he would be able to settle his loan sharks and escape the payday loan cycles. An assessment was carried out following a careful procedure that required establishing trust and confidence with the consumer as follows:

*Freddy: Good day, John, I believe that you are looking for a consolidation loan?*

*John: Yes, I am looking for a consolidation loan to settle all my accounts and have one less instalment to pay.*

*Freddy: May you explain to me your financial situation. I would like to understand what is happening and what you would like to achieve?*

*John: I have multiple loans and credit providers and I am paying too much interest rate. I would like to become debt-free and live my life again. I believe that if I can get a consolidation* *loan, pay my current debts and the loans sharks, I will be debt-free.*

*Freddy: Kindly explain to me what you know about consolidation loans and where you got the information?*

*John: A consolidation loan is when someone pays your debts, and you pay them back at a low-interest rate. I got this information from the internet and my friend also told me that a consolidation loan could help me.*

*Freddy: Thank you for the detailed information. I am going to run through an assessment with you to understand your financial situations. I will analyse what you have provided me to map a way forward. To do this, confirm your net income, marital status, and the number of dependents.*

*John: I am single with two dependents (14 and 11 years). My net income is R18 500.*

*Freddy: Thank you for the information, I will run through a financial assessment to confirm your financial situation. I will confirm your debts as per your credit profile. You have two 60-months loans, three credit cards and four payday loans. These debts amount to R289 496; monthly instalment is R17 139. The debt servicing ratio is 93%, leaving you with a disposable income of R1 361. Confirm if this is correct?*

*John: I can confirm that when my salary comes in, all the money gets deducted and I must go back to the payday loans and loan sharks to survive.*

*Freddy: Now I need to understand your total living costs. Let us carry out a monthly living expenditure to further establish your other financial needs. I would like to know what you are spending on rental, water, and electricity, travelling costs, etc. The living expenditure was calculated using standard living expenses (see Table 14).*

**Table 14: Monthly living costs**

| Expenses | | | |
|---|---|---|---|
| **Type** | **Client Amount** | | **Revisions:** (Blank if No Revision) |
| Rent (or Home Ownership Costs) | | | |
| Water/Electricity/Rates | 500 | | |
| Security | | | |
| Petrol/Travel and E-Tolls | 2000 | | |
| Funeral Cover | 300 | | |
| Vehicle Insurance | 391 | | |
| Household Insurance | | | |
| Life insurance | | | |
| Pension | | | |
| Groceries [Estimate:2000] | 2500 | | |
| Clothing | 700 | | |
| Child Maintenance | | | |
| Home Maintenance | | | |
| Vehicle Maintenance | | | |
| Medical Expenses | | | |
| Medical Aid (not from salary) | | | |
| Cellphone | 1077 | | |
| Telephone (Internet) | | | |
| TV License | | | |
| Education | 2400 | | |
| Aftercare | | | |
| Bank Charges | 250 | | |
| Creche | | | |
| Levies | | | |
| Contingency | | | |
| DSTV | 450 | | |
| Domestic | | | |
| Other (Please Specify): | 300 | Gym | |
| - | | | |
| - | | | |
| **Total** | **10868** | | **10 868** |

*Freddy: Your total living costs are R10 868. If we add your total living costs and your debt repayments, you will need an additional R9 507 to survive. This is what we call being over-indebted. Do you understand what over-indebtedness means?*

*John: It means that my income is less than my living costs and debt repayment combined.*

*Freddy: That's correct. Based on your credit report I can confirm the continuous borrowing of the same amount to bridge the consumption gap. According to the NCA, granting you further* *credit whilst you are over-indebted will constitute reckless lending. This includes a consolidation loan. An over-indebted consumer can be assisted by the declaration of over-indebtedness as per Section 86 of the NCA. Unfortunately, a consolidation loan will not solve your problem for the following reasons: you are over-indebted, you are a high-risk consumer, and you need more savings than what any loan can achieve. Would you consider a declaration of over-indebtedness?*

*John decided to apply for debt review to stabilise his budgets. Further contact and analysis of the financial situation would follow to ensure that the consumer benefited from the exercise. This financial assessment was carried out for all the consumers who were seeking consolidation loans.*

Consumer results for each assessment were summarised to determine current financial health (see Table 15), which shows a different assessment from John's. A consumer's financial health is the difference between the financial means and financial needs. The total income included salaries and other incomes, while total expenses were the living expenditure and service agreements excluding debt repayments. Debt repayments summarised consumer's total debt repayments as per contractual agreements as provided by the credit bureau reports and any additional information provided by the consumer.

**Table 15: Consumer financial health**

| Your Financial Health | |
|---|---|
| **Monthly Snapshot** | |
| Total Income | R18,000 |
| Total Expenses | R7,210 |
| Total Debt Repayments | R19,351 |
| Income-Debt-Expenses | -R8,561 |

The consumer's Monthly Snapshot shows two important consumer financial indicators. The debt-to-income ratio and living expenditure-to-income expressed as percentages illustrate how much a consumer requires. Figure 12 shows a consumer's Monthly Snapshot of 108% of income required to pay debts and 41% for living expenditure. In this case, the consumer had payday loans and long-term loans. There were no assets on the credit record; hence all debts were unsecured. The spending breakdown is shown in Figure 13. The client was found to be using 148% of their income to survive monthly.

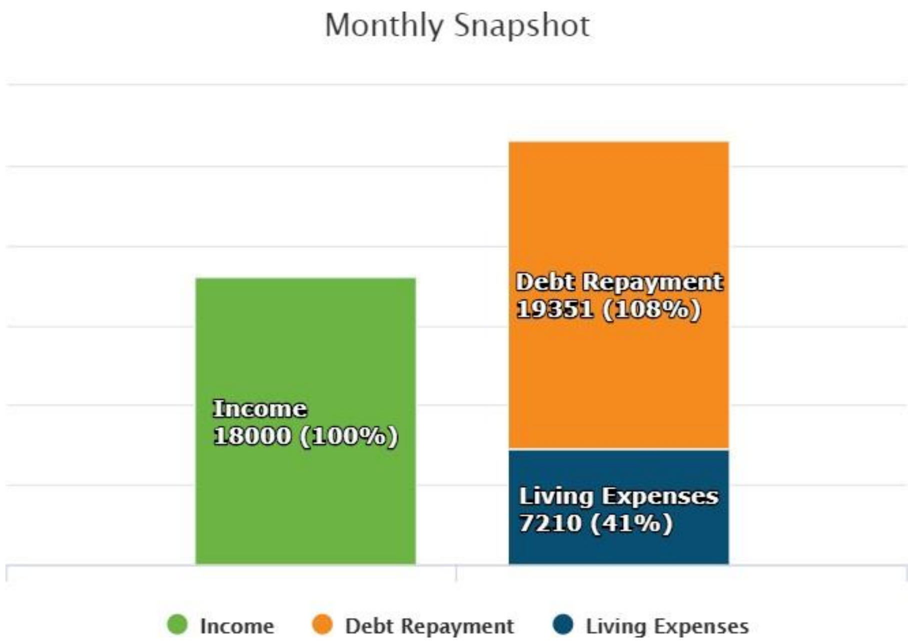


**Figure 12: Consumer Month Financial Snapshot**

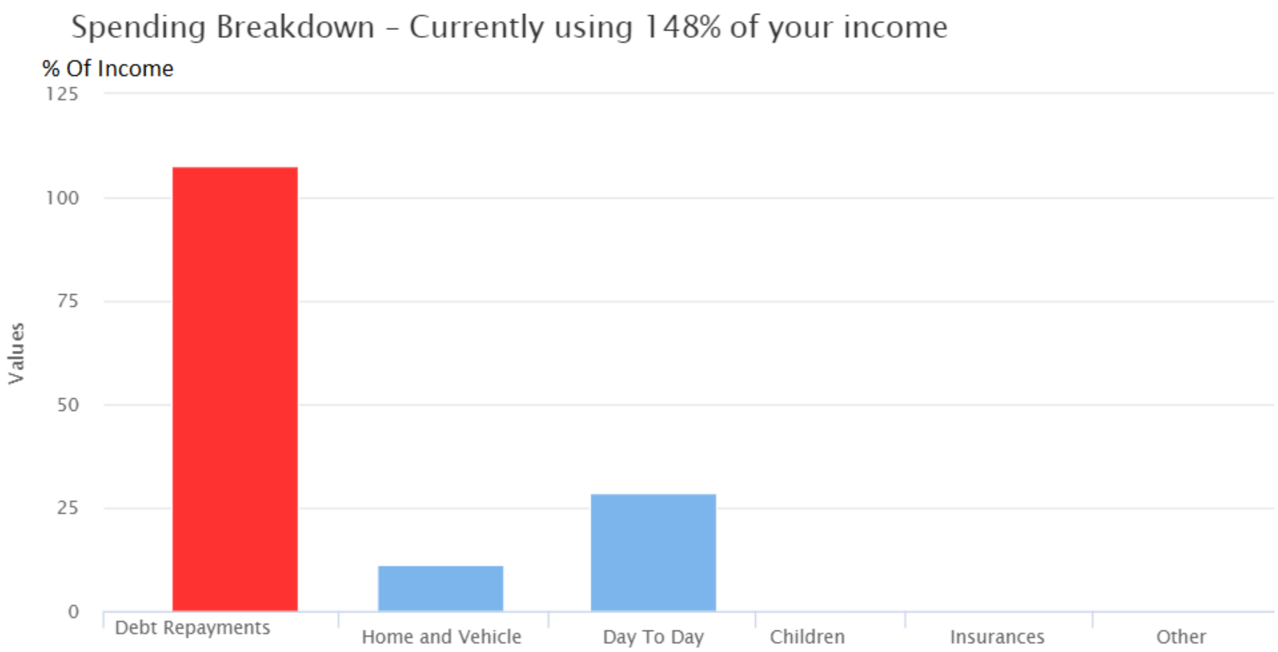


**Figure 13: Consumer spending breakdown**

A typical consolidation loan applicant has the above characteristic, where they have exhausted their borrowing capacity and hope to escape the borrowing cycles. With 148% of the income required to service debts, the client will not qualify for meaningful credit; hence resorted to payday loans. These analyses were emailed to all clients who were involved in the study to give them an idea of their financial position. Each completed budget was interpreted to the consumer and a discussion was facilitated to seek a financial solution. Below are the researcher's interpretations and discussions of the research.

## 5.7 INTERPRETATION AND DISCUSSION

This section collates the findings of the research by answering the overarching question: How does the use of consolidation loans exacerbate the over-indebtedness of the users of consolidation loans? Subsequent sections answered the three sub-questions. Mixed-methods research methodology understood debt as a real-life problem that requires engaging with different aspects of the problem (Lang *et al*., 2012). Causes of household over-indebtedness were discussed in Chapter 3, where I argued that household over-indebtedness is a symptom of unsustainable socio-economic systems that are driven by consumption rather than development. This fails to create real jobs, while the rewards financial institutions awarded to managers and shareholders keep increasing.

### 5.7.1 Unmanageable debt

Chapter 3 highlighted the theoretical framework for debt use and repayment. The Life-Cycle Hypothesis and Permanent Income Hypothesis were discussed to justify the use of household debts. Using these theories, one could argue that borrowing can be as sensible as saving (Bertola *et al*., 2006). The problem starts when debt becomes unmanageable (Lane, 2016). Unmanageable debts affect the physical and mental health of consumers (Gunasinghe *et al*., 2018; Balmer *et al*., 2010), may cause family breakdowns (Lane, 2016), contribute to suicides and anxiety (Di Muzzio and Robbins, 2016). In South Africa, the desire to manage debts results in the use of credit to pay credit. Debt repayment burdens experienced by consumers leave them turning to the use of consolidation loans as the primary remedy to address their debt burdens.

The literature review highlighted the making of the indebted man (Lazzarato, 2014), and the production and reproduction of the indebted man are manifested in subjectivities that are difficult to escape. These are best explained in terms of debtor-creditor relationships (Callison, 2017). These relationships go as far back as the 18$^{th}$ century (Graeber, 2011). The research found that debt has been normalised as part of everyday life (Soederberg, 2014). Using consolidation loans, the morality of debt is questioned given the pleasure that debt brings, and the punishment created when one must pay back the debt. The literature on intertemporal choices and discounted utility can explain the choices that consumers make daily and the consequences that play out later. In Chapter 3, Section 3.2.3, the credit use process model was used to demonstrate how different variables interact in the consumers' debt experience, starting with the decision to take credit, the process at credit take-up and the process after credit take-up. Noted in this research was that these processes have become continuous and keep repeating themselves, which creates debt cycles.

### 5.7.2 Credit providers’ predatory behaviour

In Chapter 3, Section 3.2.2, I defined predatory lending as the granting of credit that may result in serious harm to the consumer (Schmulow, 2016). He pointed out the role of consumer naivety in falling prey to harmful credit. In the same argument, he maintained that the increase in unsecured lending is not translating into increased household consumption. The outlawing of reckless lending in South Africa is a celebrated milestone achieved by the National Credit Regulator through the enactment of the NCA and regulations that followed (James, 2014). These have not in any way prevented predatory lending as reckless lending goes as far as either ignoring the consumer's over-indebtedness when granting credit or failure to carry out an assessment (NCR, 2006). Predatory lending takes advantage of consumers' situations (Schmulow, 2016). Arguments over reckless lending in South Africa challenge reckless borrowing (James, 2014). These arguments are synonymous with blaming impulsive borrowers (Engel and McCoy, 2002).

The researcher’s findings show that predatory lending is going unchecked if it does not constitute reckless lending. His sample had an experience of using long-term loans from almost all institutions to settle other loans but was not recorded as consolidation loans. Most of the consumers were either convinced by credit providers that they could settle other loans and still increase their disposable income. Banks like Capitec, African Bank, Nedbank, and microlenders like Bayport use the loan top-up mechanism. When a consumer applies for a new loan and they can afford it, they are convinced to settle the existing loan with the institution, then taking the remainder. This increases the instalments and stretches the loan repayment terms.

In the case of Jane, between 2017 and 2020, she attempted to settle her debts using debts between Capitec and Nedbank (see Table 16). Jane had two loans from Capitec, which she obtained in February 2017, and after two years of payment, she applied for a loan and was offered a settlement of the two existing loans and got the remainder of the funds. In February 2019, she got two new loans and old loans were settled, where the terms increased from 60 months to 69 months. In November 2019, she decided to apply for a Nedbank consolidation loan, which only settled one Capitec loan. In May 2020, she went back to Capitec and took a 58-month loan to settle the Nedbank loan and the remaining Capitec loan. There is no doubt that the consumer paid new initiation fees each time she took a new loan. Jane stated that the banks gave her what she asked for and there was no advice or questions asked.

**Table 16: Consolidation cycle**

| Credit Provider | Credit Agree | Date Opened | Opening Balance | Instalments | Current Balance | Loan Term | Pay Date |
|---|---|---|---|---|---|---|---|
| Capitec Bank | Personal Loan | May 20 | R218,986.00 | R7,250.00 | R210,000.00 | 58 | Jun 20 |
| Game Store | Store Account | Dec 18 | R30,000.00 | R1,500.00 | R26,450.00 | 0 | May 20 |
| Capitec Bank | Credit Card | Feb 17 | R24,000.00 | R1,300.00 | R22,980.00 | 0 | Jun 20 |
| Capitec Bank | Personal Loan | Feb 17 | R40,000.00 | R0.00 | R0.00 | 60 | Feb 19 |
| Capitec Bank | Personal Loan | Feb 07 | R103,456.00 | R0.00 | R0.00 | 60 | Feb 19 |
| Capitec Bank | Personal Loan | Feb 19 | R112,989.00 | R0.00 | R0.00 | 69 | Nov 19 |
| Capitec Bank | Personal Loan | Feb 19 | R71,871.00 | R0.00 | R0.00 | 69 | May 20 |
| Nedbank | Personal Loan | Nov 19 | R126,208.00 | R0.00 | R0.00 | 60 | May 20 |

From the above table, Jane moved from a 60-month loan to 69 months and then 58 months. The result was an overall increase in the instalments as the time frames decreased. The last attempt to consolidate was met with a higher risk and hence terms were lowered to 58 months. It was conclusive that predatory lending is inevitable as Nedbank attempts to protect their loans by listing incorrect account numbers on credit bureaus reports. However, consumers work with credit providers to provide an accurate account number.

### 5.7.3 Gender-based borrowing behaviours

Gender perceptions of debt consolidation loans were considered in carrying out financial assessments. The exercise analysed the type of debts obtained by men and women within the same income group. The sample showed that women tend to have more accounts than men. Findings included the number of store accounts that women have versus men. For instance, women have Ackerman's, Jet Stores, Edgars, Foschini, or Mr Price accounts, while men have Markham's, Spitz, and Edgars. The same can be said about asset accumulation versus survival debts. Men tend to have vehicle finance and home loans, while women have more short-term loans and store accounts. Short-term loans were common with female respondents and as a result, they had higher debt servicing ratios than their male counterparts.

Debt obligations were classified in secured and unsecured credit for the assessments. Classifications of credit enabled me to understand the borrowing behaviours of consumers and the extent of consumers' debt cycles. Two classes of assets were assessed: home loans and vehicle finance. Unsecured debts were classified using the term of agreements discussed in Chapter 4, Section 4.1. An average of eight debt obligations was observed, including the COP assessment. From the sample, 41% of the assessments had vehicle finance and 23% had home loans. Male participants owned 62.5% of the vehicle finances. Asset finance by gender (see Table 17) showed that more men with the same earning capacity and the same number of dependents either have vehicle finance and/or home loans compared to their female counterparts.

**Table 17: Secured assets by gender for single assessments**

| Obligations and gender analysis | Secured Debt Obligations | |
|---|---|---|
| | Vehicle Finance | Home loans |
| Male | 10 | 4 |
| Female | 6 | 5 |
| Total | 16 | 9 |

Unsecured debt distribution based on gender (see Table 18) shows how different genders perceive certain debt obligations. The assessments of unsecured credit seek to understand the sources and use of loans. Unlike secured assets, unsecured credit is often used for subsistence consumption. The number of unsecured credit obligations illustrated subjective over-indebtedness, as argued in the literature review. From the sample of 11 COP clients, an average of 10 debt obligations was observed, and six debt obligations for the 39 single applicants. I observed the following patterns in borrowing behaviour between men and women when considering unsecured credits: men had more long-term debt obligations than women, while women with dependents had more than two store accounts.  An average number of an unsecured debt obligation by gender is summarised in Table 18.

**Table 18: Unsecured debts by gender**

| Obligations and gender analysis | Unsecured Debts | | | | Average Number of Obligations |
|---|---|---|---|---|---|
| | Long term Loans | Revolving Accounts | Store Accounts | Payday Loans | |
| Male | 3 | 3 | 1 | 3 | 9 |
| Female | 2 | 4 | 3 | 3 | 9 |

The samples showed an even distribution of debt obligation, but the distribution of obligations explains borrowing and payment behaviour by gender. Both men and women showed an even number of payday and short-term loans. Further analysis showed that consumers with high debt servicing ratios were heavily reliant on payday loans and retail accounts and believed that their financial problems can be solved by getting a consolidation loan. Incidences of more than 100% indebtedness were recorded in the sample group. Consumers with more than 100% debt-servicing ratios had multiple payday loans as well as arrears on the long-term loans. The use of payday loans was a clear indicator of consumers failing to access credit through conventional banks. Consumers used online platforms to apply for payday loans where they swipe their visa cards to avoid missing payments. Observed was the shifting of account numbers by consumers who moved salaries around to avoid payments. Results confirmed that more than 50% of the sample used payday loans regularly.

COP consumers showed a deeper household financial problem than single applicants. The study on the 11 COP respondents had a mixed application of the matrimonial law. Six of the 11 households managed their debts separately. Completing a household assessment was daunting for these households. Couples were not fully aware of the number of debts their spouses had. Failure of joint financial management by households affected accountability. These households have little or no savings towards their estate and instead borrowed more than they earned. More than 60% of the couples had no idea of their spouse's income and expenditure. The researcher’s engagement with COPs was time-consuming as it involved explaining the matrimonial laws and their implications on debt and financial management. COPs eventually took financial advice more seriously than single applicants. I assumed that the continuous engagement between parties resulted in a conclusion to seek advice. He encountered a couple from the Western Cape who shared their experience with a consolidation loan from African Bank.

A detailed discussion of their financial situations was conducted and is reported below. Enrico and Mary were married in community of property for more than 6 years. Enrico was involved in an accident that made him unable to work well. They have two children who are 8 and 6 years. Their financial needs increased with the kids growing up. In the financial assessment, Mary could not confirm Enrico's income. She, however, stated that he was also considering consolidating his debts. The assessment was rescheduled when the couple was together. Enrico explained how African Bank had let him down. Mary's income was R9 500 and Enrico earned R8 500, which brought the total household income to R18 000. Their debt composition included vehicle finance, three personal loans, three credit cards and two retail accounts. One credit card and the personal loan were in arrears.

Mary stated that the vehicle instalment made it difficult for her to meet the personal loan and credit card instalments. Both accounts were three months in arrears. Enrico stated that his problem began when African Bank called him to tell him that he qualified for a consolidation loan. After getting the consolidation loan, he settled the credit card, Old Mutual and the previous African Bank loan. This resulted in an increase in the instalment from R3 650 to R4 500, leaving him with R4 000 disposable income. With the low disposable income, he turned to his credit card and used the funds he had settled on the credit card. For the total amount of R141 000 that he borrowed, his monthly instalment was R4 500 over 72 months. The accumulative payback is R324 000. After a comprehensive assessment, the clients were referred for reckless lending investigation. It was concluded that the failure of consolidation loans to solve credit card and revolving credit agreements is as a result of risk compensation as highlighted in Section 4.3.2.

### 5.7.4 Debt literacy and consolidation loans

Consumers who cannot qualify for credit products from mainstream financial institutions resort to payday loans (Lee *et al*., 2019). Consumers demonstrated low levels of debt literacy in response to the reasons for applications for consolidation loans. Marketing of consolidation loans creates the impression of low-interest rates, yet consumers fail to secure these loans. Inability to carry out feasibility and cost-benefit analysis of consolidation loans is common. Consumers are driven by lay theories and personal finance myths. Lay theories include linear thinking on settling multiple debts with one debt to become debt-free. Considerations of the type of credit and sub-sector were ignored, leading to high costs of ignorance. The feasibility of consolidation loans is explained in the next sections, considering the maximum prescribed interest rates among other costs of credit. Respondents showed low calculative logic. Polleta and Tufail (2014) argued that when it comes to debts, consumers act on a moral rather than calculative logic. Instead of considering the costs of credit, consumers are more worried about paying their existing debts even if it means that they would borrow the money to make the payment. Consumers with arrears on vehicles and home loans often stated that having access to a consolidation loan would help them pay their arrears. There was no expression of the concerns over the costs and qualification of the consolidation loan.

Debt literacy is fundamental to enable consumers to be calculative and use moral logic at the same time. A moral logic that lacks calculative logic results in consumers getting deeper into a debt hole (James, 2014). In other regions, the consumer has an idea of the costs of credit. In America, 36% of 1 000 sample respondents could comprehend compound interest. I noted that 100% of his sample failed to comprehend the total payback of the long-term loans. The total payback is calculated by multiplying the loan repayment term by the monthly instalments. Consumers' reactions to the total payback amounts demonstrated the inability of consumers to cater for costs of credit. A consumer with a personal loan of R151 207.00 from Nedbank had a monthly instalment of R5 521 per month over 60 months. Total payback of the loan can be calculated as R5 521 x 60 months and total payback is R331 260. The total cost of the amount borrowed is R180 053.00. In my discussions with consumers, none of my respondents understood the payback amounts.

### 5.7.5 Feasibility of consolidation loans

Consumers expressed an inability to understand the difference between credit sub-sectors. Consolidation loans fall under the unsecured credit transactions with a maximum prescribed interest rate of 28% as per the amendments to the NCA with the insertion of Regulation 42 (1) of 2015 (NCR, 2016). Credit cards, overdrafts and revolving credit plans are credit facilities with a maximum prescribed interest rate of 21%. Secured credit agreements such as home loans and vehicle finance are prescribed at a maximum interest rate of 19% (NCR, 2016). Feasibility of consolidation loans is questionable if these costs are considered. A critical analysis of consolidation loan marketing globally and in South Africa has confirmed that credit providers preached the use of consolidation loans to settle store accounts, credit cards, overdrafts, and personal loans despite the obvious disadvantages for consumers. Consolidation loan interest is higher than the other sub-sectors, making it costly to settle credit cards, store accounts and revolving accounts. Consumers often expressed the desire to use the consolidation loan to settle revolving accounts and close them. The sample showed a high dependence on revolving accounts. The case of Enrico and Mary demonstrated the shortcomings of using the consolidation loan to settle a credit card. Dependency on revolving credit and store accounts entails a continuous use of money paid to these accounts.

A consumer who is highly dependent on these accounts may not sustain their living costs from the perceived savings of the consolidation loan should they pay and close the revolving accounts. What attracts consumers to consolidation loans is that consolidation loans shift payment burdens into the future. More than 65% of the sample had taken the new short-term to medium-term loans within three months and were looking to settle them. There are exceptions where consumers had taken a long- term loan up to 84 months within three months and were looking to settle them using a consolidation loan. Consolidation loans have proved not to create favourable payment terms in South Africa but shift the debts from one credit provider to another.

The interest rate is the major cost of credit. An attempt was made to validate the effects of initiation fees involved in taking consolidation loans. Considering that consumers would have already paid initiation fees to the existing debts, a new consolidation loan entails new initiation fees, as prescribed by the NCA and respective amendments. A new initiation fee is calculated as R165 per credit agreement, plus 10% of the amount more than R1000, but never to exceed R1050 (NCR, 2015). This amendment means that a consolidation loan may erode the savings from either interest and payment terms through initiation fees or other costs.

A continuous engagement was carried out with financial consultants to address conditions under which consolidation loans could work. Financial consultants argued that consolidation loans could be useful to pay off short-term loans provided the consumer qualifies. They argued that a consolidation loan extends payment terms of the short-term loans, which may lower the monthly instalments in the short run yet increase cumulative interest payable. Use of consolidation loans to resolve the problem of revolving credit cards fails on two grounds. A consolidation loan's interest rate is prescribed at 28%, while a credit card is 21%. Using a high-cost loan to settle a low-interest rate loan will increase the payment in the short run and the long run.

Settling debts using a consolidation loan does not address the actual consumer behaviours that lead the consumers into the state of over-indebtedness in the first place. Consumers' understanding of their financial position and debt experience requires sufficient interpretation of existing borrowing behaviour, level of indebtedness and history of payments. The ability of consumers to comprehend this interpretation highly depends on the level of debt literacy. A consolidation loan requires comprehensive debt literacy to inform consumers using a cost-benefit analysis, which they find difficult to understand. A cost-benefit analysis entails a comprehensive analysis of the costs and benefits of current credit versus the new credit.

Precarious behaviour leaves consumers seeking to satisfy their current financial situation without considering the longer-term consequences. A consolidation loan does not address the level of indebtedness. Solutions should focus on stabilising household budgets via appropriate economic policies instead of transferring the burden into the future. Consolidation loans reinforce the overall condition of indebtedness within a highly unequal society that tends to transfer more real wealth to the rich than to the middle class and the poor. To survive on low wages and salaries, individuals and households' resort to debt. In their desperation, they are easy prey for the marketing messages of the major financial institutions who present consolidation loans as a panacea. Exploiting their desperation and lack of understanding, the financial institutions exacerbate indebtedness via consolidation loans.

### 5.7.6 Consumer behaviour

Precarious behaviours are driven by desperation and anxiety, which is compounded by the illusion of financial inclusion. Response to time-based debt repayment and the need to settle debts without considering costs was observed. Consumers lack an ideology of a future driven by high expectations for intertemporal choices. Detailed engagement with consumers on their financial situations made it possible for them to gain a greater understanding of the causes of over-indebtedness and established a level of financial literacy. Offering advice to consumers who are financially struggling is challenged by consumer behaviours. The literature suggests this is exacerbated by the availability and complexity of financial products (Fakoti, 2015). Advancement in technology exposes consumers to different sources of credit, avoiding the opportunity presented by not having money. Jesus and Oliveira (2013) argued that not having money should be an opportunity not to buy, but the marketing messages create the opposite impression.

Consumers resist recommendations to seek debt counselling as this restricts further use of credit during the debt repayment period. Section 88 of the NCA prescribes that consumers under debt counselling may not access credit until such a time that the existing debt has been settled and a clearance certificate is issued. Vulnerability created by credit dependency leaves consumers believing that they will not survive without accessing further credit for a certain period. The addiction to store accounts and credit cards was coupled with the inability to comprehend the costs of these accounts. Debt literacy intervention should focus on rational consumption decision making. The researcher's assessments confirmed consumers' understating their costs of living to secure credit. The use of credit history often caught the consumers out when seen to have understated their costs of living. Use of payday loans and the expression of financial strain while consumers' budgets reflected surplus was observed. With further analysis, consumers would provide more information.

Consumers want consolidation loans instead of needing them. Terms such as "just settle, pay less, pay one account" were common in financial assessments. More often, consumers failed to substantiate the costs of credit and the amount that they seek to save every month. Consumers are more concerned about paying less, even though they cannot quantify how much less. These results do not confirm the conventional economic theory on debt and consumption. The life-cycle hypothesis assumes utility maximisation. Age would be a determinant of debt accumulation. Debt repayment would be a priority for older consumers as they seek to stabilise their future in retirement. There is no evidence of older consumers adopting debt repayment solutions rather than accumulating new credit. Instead, consumers of all ages decline debt review as this would prohibit them from accessing credit.

Post financial advice was characterised by consumers avoiding taking phone calls or engaging further. Consumers either blocked the numbers after a follow-up or change their contact details. Further analysis highlighted that these consumers are already accustomed to avoiding calls and are seeking quick fixes. Should they not get what they want at that time; consumers convince themselves of a better financial status. There are a few incidences where consumers make contact after three or more months to seek further advice. This was usually characterised by further rejections on loan applications by credit providers where consumers acknowledge their financial situations. Low levels of debt literacy challenge consumers' ability to validate financial advice. The low levels of financial knowledge observed results in suboptimal financial behaviours that are likely to have long-term consequences.

### 5.7.7 Consolidation loans and household financial sustainability

Debt literacy is central to sustainable borrowing and repayment of debts. High levels of debt illiteracy shown by participants in the research affect household financial sustainability. Intertemporal choices were explained to consumers when considering their choices. Sustainability of solutions was explained to consumers who either comprehended the advice or went on to borrow. The level of desperation and precariousness is rooted in the political economy of post-apartheid South Africa. More consumers are getting excluded from the formal credit market, thus increasing the use of alternative financial services, including payday loans and informal lenders. The high costs of credit and unfavourable borrowing conditions increase household vulnerability. These vulnerabilities are evident in the increase in unsecured lending, is explained in Chapter 4. Tighter lending criteria of home loans and vehicle finance leaves millions of people turning to high-cost credit.

Standing (2014) argued that children are born into debt, grow in debt and graduate with debts wrapped around their necks. Debt robs consumers of their futures, where an analysis of a consumer's payback of the long-term loans was observed. Escaping the debt cycle by shifting the repayment of the debts into the future means that the affordability of consumers is affected in the long run, leaving them exposed to high- risk loans. The country needs skilled labour to foster economic growth, yet the future of consumers and their family is already consumed in the current period. Consolidation loans are not debt solutions. Alternative solutions are needed. I argued that the existing debt review process is sufficient to mitigate the debt burden for the middle class should investment in debt literacy be taken seriously. A sustainable debt solution should target the cost of credit to minimise the payback while reducing the risks for the credit providers and the consumers.

### 5.7.8 Psychology of debts

Household vulnerability increases with levels of indebtedness. Literature confirmed the impact of debt on consumer mental health (Taylor *et al.*, 2017). Personal judgements on financial positions showed the inability of consumers to comprehend the status of over-indebtedness. A sense of desperation was expressed by consumers seeking consolidation loans. With low levels of debt literacy, consumers do not comprehend the disqualification of any forms of credit. Consumers were reluctant to discuss their financial situations, coupled with an understating of the costs of living to secure credit. Consumers avoid confronting their debt situations. Anxiety and depression are common effects of credit. Poor psychological wellbeing resulted in further unsustainable borrowing and impaired judgements regarding financial solutions.

Consumers expressed self-conscious emotions, which were explored in the literature. Debt creates shame and regret. In the researcher’s analysis, consumers expressed regret in taking up their current debts. These consumers have been juggling and avoiding credit providers. Their hope to get the consolidation loan entails escaping the multiple calls experienced daily. During financial assessments, I challenged consumers to discuss their financial problems and strip away the shame. Diminished psychological health was observed in the sample. Women were willing to discuss their debt distress more than men in the sample used even though this did not always result in them adopting corrective measures. Women demonstrated high levels of shame and desperation, while men did not show many emotions, but rather expressed their desire to get the consolidation loan or picture alternative solutions.

Shame created by money problems was often hidden by understating the costs of living or use of emotional explanations, including how the death of family members or loss of employment has hindered them from paying their current debts. The power of shame as emotion was observed for the community of property marriages where consumers did not want their spouses to know what they were going through. This confirms the privatisation of money. Success is easily celebrated while shame is hidden away. There is no shared knowledge of how individuals are dealing with money problems. The psychological effects of individualisation and isolation of money leave people responsible when they do not have enough money. The level of anxiety, fearlessness and hopelessness invades and eventually poisons people's lives (Hembruff and Soederberg, 2015). Consumers living in shame fear taking corrective steps towards their financial problems. The fear of someone controlling one's finance prevents people from seeking advice. Consumers want to stay in control of their situation even when they have failed. Responses to consolidation loans demonstrated the desire to stay in control of one's credit at any costs. Debt stressed consumers are observed to regard financial advice as a sign of failure, while investors and the elite use the services of private bankers and financial advisors.

## 5.8 CONCLUSION

To demonstrate that consolidation loans exacerbate household over-indebtedness, this chapter started with giving the context of consolidation loans. It recaps the increase in unsecured lending in South Africa, which has many drivers, including stringent lending criteria of home loans leaving many consumers resorting to unsecured lending. Consolidation loans are assumed to be unsecured debts that are issued to settle multiple credit providers. This was found not to be the case within the South African credit market system. The use of the term "consolidation loan" was found problematic in that credit providers do not list these loans as consolidation loans on the credit bureaus, except Old Mutual Finance. Instead, they are usually long-term personal loans of between 60 and 72 months. It was also found that there are several practices of debt consolidations underway, including credit providers settling current consumers' loans and granting the difference to the client. It was concluded that a consolidation loan means any debt used to pay other debts instead of assuming the settlement of multiple debts.

The supply side of consolidation loans and its marketing creates subjectivities in the consumer mindset, which are highly problematic. The existence of an "indebted man" justifies the marketing of consolidation loans under the banner of debts that are meant to help consumers. One-sided marketing of consolidation loans was traced on credit providers' websites, giving a summary of the way that credit providers portray the consolidation loans. What the websites say and what consumers experience tend to be different. For instance, the lower interest rates stated are never achieved by consumers. Instead, the same institutions reject the consumers without justifying the rejections. In the researcher's study, each consumer had at least three inquiries and rejections. These loans require a good credit record, high credit score and good affordability. While strides have been made towards prohibiting reckless lending, predatory lending remains unabated.

An investigation of consumers' perceptions of consolidation loans highlighted the myths that are created by marketing. The perception of interest rates and the effects of compound interest were discussed with the consumer. It was concluded that consumers have a lower appreciation of compound interest and its effect over time. In Chapter 3, I argued that low debt literacy results in low appreciation of basic financial principles, including the interest rate and terms of the agreement. Engagements with IDM Group Financial consultants highlighted the shared concerns over consumers' appreciation of debt and its entirety. The financial consultants reported fixations by consumers on the idea of consolidation loans. They argued that consolidation loans do not mean less debt but mean more debt in the short and the long run. Sharing of literature review and individual experiences shaped the financial assessments that were carried out.

The assessments were carried out to determine consumers’ financial well-being monthly. Income, living expenditure and debt repayments were analysed. Consumers’ debt was drawn from TransUnion Credit Bureau with consumers' concern guided by the POPI Act. The results of the assessments showed an individual client's financial health monthly while determining the spending breakdown. Consumers with a high debt servicing ration were characterised by dependency on payday loans and other short- term loans. These were typical consolidation loan-seeking clients.

An interpretation of results highlighted that the use of consolidation loans exacerbates household over-indebtedness. The argument maintained is that household over-indebtedness is not only driven by poverty but is also systemic to unsustainable socio-economic systems. As such, household over-indebtedness is not the problem, but the symptom of the underlying socio-economic challenges faced by everyday people who must make decisions that have consequences that play out later. The finding starts with a summary of the literature review highlighting the effects of financialisation, neoliberalism and financial capitalisation. The unsustainable socio-economic system drives a consumption-driven economy that limits the creation of real jobs. Instead, it encourages the use of credit, resulting in indebted subjects who are prone to exploitation by credit providers.

Credit provider predatory behaviour makes consolidation loans appealing through marketing where consumer naivety leaves them in danger. Improving debt literacy empowers consumers to understand financial products while protecting them from credit providers. Highlighted in the research was the low appreciation of interest rates by consumers seeking consolidation loans. The feasibility of consolidation loans was questioned using the costs of credit analysed in Chapter 4. To mitigate household over-indebtedness, solutions are required to manage consumer behaviour while moderating consumption. The use of financial products without addressing consumer behaviour may prove counterproductive. If the underlying socio-economic ills are not addressed, consumers will always go back to adding more debt.

# CHAPTER 6:
# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 6.1 INTRODUCTION

This thesis investigated the appropriateness of consolidation loans to mitigate household over-indebtedness. The increase in long-term loans as unsecured lending in South Africa threatens the wellbeing of many working people. These loans present a challenge because they result in financial exclusions that affect household affordability over a long period of time. Household affordability affects access to home loans and vehicle finance, which increases household vulnerability from high-risk loans including payday loans, short-term loans, and loan sharks. The use of consolidation loans exacerbates over-indebtedness of the loan users. In this section, I provide a summary of the thesis, followed by the conclusions, and finally discusses recommendations, including areas of further research.

## 6.2 THESIS SUMMARY

The researcher’s concern over the consumer's perception of consolidation loans resulted in his investigation of the socio-economic effects of consolidation loans in South Africa. Consolidation loan practices include the issuing of large loans to settle multiple debts; credit providers settling consumers’ current debts with the issuing of the loan difference to the consumer; and the use of any other loans to pay other loans, in no particular order. The result is that consumers are adding more debts on top of the debts that they have while believing the opposite is happening. In the process, consumers are becoming more over-indebted. Consolidation loan marketing emphasises benefits, including having one convenient payment, low-interest rate, one admin fee and a hassle-free process of debt settlement. This research disagrees with the marketing messages and used an analysis of the credit sub-sectors in South Africa to demonstrate that these loans are unfit to be considered as a debt solution. If these loans do not achieve a reduction in instalments, why do consumers continue to believe in them?

Using literature, I located consolidation loan users as a manifestation of the rise of what Lazzarato called “the indebted man”. The indebted person is a precarious being, who is concerned about seeking satisfaction now while disregarding the consequences of his/her actions. These behaviours are perpetuated by the creditor-debtor relationships that are created within the debt economies under neoliberalism, financialisation and financial capitalism. The relationships maintain credit provider superiority while using consumer naivety to increase profit shares at the expense of consumer well-being. The power of debt leaves consumers more concerned about their credit scores than their ability to afford the loans, hence the desire to manage debt so that they can qualify for more debts. The search for consolidation loans is less about improving cash flow and more about increasing access to other kinds of debts.

The literature review identified the "indebted man", discussed how he was produced and reproduced within neoliberalism governmentality (Lazzarato, 2014; Soederberg, 2014; Graeber, 2011). Debt creates indebted subjects who have been driven into the entrepreneur of the self, i.e. one who takes risks and is assumed to make rational financial decisions. In the process, they are bearing the risks that the governments and credit providers are not willing to bear. The introduction of consolidation loans demonstrates how credit providers are prepared to shift liabilities of one institution into assets of another while leaving the individual as the bearers of the market risks. One of the roles of the "entrepreneur of the self" is to manage his estate, debts, assets and liabilities. For this individual, managing debt is an attempt to manage other aspects of their lives.

Unmanageable debts are linked to wider life problems, for instance, family breakdowns, financial exclusion, poor mental and physical health. Household over-indebtedness is not only poverty-driven but is also a systematically applied accumulation technique deployed by financial capital. In a world where consumers work to pay debts and borrow to survive, South African consumers have mastered the art of juggling with debts. Many people are drawn into the debt net. Debt repayment burdens experienced by South African consumers with incomes above R15 000 per month is ever increasing, with the indebtedness index steadily rising.

Chapter 4 traced the increase in unsecured lending in South Africa, where growth seems to be moving towards long-term loans above five years. These loans are usually the ones used to pay other loans; hence one cannot attribute this growth to any meaningful consumption. The role of aggressive marketing of consolidation loans by financial institutions cannot be underestimated if one is to consider the marketing messages that were reported in Chapter 5. Low debt literacy plays a crucial role in credit provider dominance in creditor-debtor relationships, leaving consumers subjected to the images created by these marketing campaigns. Given the sub-sectors of credit in South Africa, consolidation loans are unsecured credit agreements with an interest rate of 28%, as per the regulations (NCR, 2015). This disqualifies the claims made by marketers of low-interest rates. Instead, this research points out that consolidation loans are predatory lending practices that are justified by the outlawing of reckless lending (James, 2014). The outlawing of reckless lending protects credit providers from any wrongdoing should the loans granted prove harmful to the consumer, while assessment carried out proves no reckless lending.

Embracing the mixed-method research methodology justified the engagements with consumers, financial consultants from IDM Group, and the literature on household debt. Financial consultants shared the concerns about the consumers' fixation with the idea of consolidation loans and how they perceive these loans. From a sample of 50 clients, men and woman showed different borrowing traits in respect of the use of store accounts, having assets and survival debt. Budgets were drawn for all the participants and results were presented to them. All of the respondents were over-indebted, yet the sample believed that the consolidation loan would fix their problem. Low debt literacy drives precarious consumption behaviours that are fuelled by unsustainable socio-economic systems. The alternative is to see how consumption and consumer behaviour should be targeted to create a sustainable socio-economic system.

## 6.3 SUMMARY OF FINDINGS

The literature review highlighted the effects of the debt economy in driving consumption-driven economies that did not create jobs, but instead, these economies were made possible through debt. This analysis of debt and how it is constructed shifts the conversation about poverty and inequality. Our society is made up of people whose levels of poverty are measured in terms of the number of loans they have.

Literature reported the production and reproduction of a poverty industry that is subsidised by debts. The failure of many consumers in South Africa to qualify for home loans and vehicle finance has created an opportunity for unsecured lending. This increases inequalities in a country that is already considered to be the most unequal in the world. Long-term unsecured credit further deteriorates consumers' affordability, which creates a conducive environment for microlenders and informal credit providers. Apart from increasing the inequality gap between owners of property and tenants, it increases poverty and is increasingly becoming the main factor of financial exclusion. To illustrate this, in this section, I summarise the findings of the research questions**.**

### 6.3.1 Sub-question 1: Why has over-indebtedness become such a major challenge, globally and in SA?

Chapter 3 answered sub-question 1 by demonstrating the way multidimensional relationships work within the creditor-debtor continuum. The relationships shape the ability of households to accumulate resources, invest, save, and buy a property. These relationships can be a factor of impoverishment, wellbeing or ill-being, stress, anxiety, and tragedies like suicides. The effects of debts on the students leaving universities globally cannot be overlooked given that these individuals may fail to actively participate in meaningful economic activities. Household over-indebtedness affects household wellbeing. It may well prohibit individuals from taking on life opportunities that come their way. For instance, some job opportunities require employees with clean credit records. The 2008 financial crisis is a typical turning point in the role of household over-indebtedness globally and South Africa. The near collapse of the world economy in 2007/8 has a lot to do with debts accumulated by employed people. Since then, many have raised questions on the role and effects of household debts.

The moral tone that the crisis left maintains disapproval of debt and debt practices globally, while others could argue that borrowing can be as sensible as saving. The problem starts when debt overwhelms all other forms of income, as seen in South Africa. For South Africans, it is not that they have debt, but they have too much debt. With too much debt comes psychological or mental indebtedness. Consumers simply do not seem to understand the consequences of their borrowing behaviour, while the market is highly aggressive in every aspect. Household over-indebtedness has been naturalised and normalised, yet too much debt can catalyse dysfunctional outcomes. The literature review highlighted the effects of normalization of debt through history. In Chapter 3, I built the theoretical framework while in Chapter 4 I highlighted the growth in unsecured lending. While this pattern is celebrated as a positive indicator for the credit market, the trends are alarming. Linking the two chapters, one could argue that the normalization of the abnormal conditions created by debt justifies the search of loans to pay other loans.

### 6.3.2 Sub-question 2: Why have consolidation loans become the primary mechanism for dealing with over-indebtedness?

Structural over-indebtedness is a product of neoliberal discourse. The adoption of neoliberal economics in South Africa since 1994 liberalised the credit market, resulting in an increase in access to credit to racial groups that were previously excluded by the Usury Act. The resulting over-indebtedness required solutions. Unfortunately, most of the debt solutions included new kinds of loans, including consolidation loans, payday loans and other forms of unsecured loans. The supply-side and demand for consolidation loans is driven by aggressive marketing to a naïve, debt-illiterate client base.

The one-sided marketing of consolidation loans downplays the downsides of these loans. Marketing of consolidation loans in South Africa emphasises that these loans can make consumers debt-free by reducing monthly instalments, interest rates, the risk of missing payments and one service fee. These marketing messages create precariousness in consumers’ minds. The level of debt literacy globally and in South Africa exposes consumers to credit provider exploitation. Debt literacy shapes the ability of consumers to make borrowing decisions. It improves consumers' understanding of debt contracts by employing basic mathematical knowledge of compound interest and other costs of credit in everyday life.

Intertemporal choices explained in Chapter 3, Section 3.2.4, demonstrates the reasons why consumers are captured by consolidation loan marketing. Consumers seek the pleasure of having the goods or money to pay their debts and postpone the pain of paying their debts. In making consumption decisions, individuals are constrained by the resources available. Availability of credit denies the unavailability of the resources, making consumption possible and avoiding waiting. It is assumed that the use of consolidation loans will prevent the consumer from failing to pay their debts when available resources cannot permit. This leads to the next question answered by this research.

### 6.3.3 Sub-question 3: What do consolidation loans achieve and what are the impacts on consumers?

Consolidation loans contributed to the increase in unsecured lending between 2008 and 2019. The increase in long-term unsecured loans, which are predominantly consolidation loans, provides a false outlook on the financial markets. This was seen by the increase in loans of between five and 10 years, while other loan terms are decreasing. This has an impact on the credit market as well as the consumers. In Chapter 4, I explained the credit sub-sectors in South Africa, and he identified consolidation loans as a form of the unsecured credit agreement. Using the interest rates, I demonstrated that consolidation loans are among the most expensive credit sub-sectors, making them unsuitable to pay credit cards, store accounts, home loans and vehicle finance. Their interest rate is capped at 28%, which is directly contradictory to the popular marketing messages. Consolidation loans increase the costs of credit if used to pay credit to other subsectors. Consolidation loans result in a new initiation fee, which is often omitted in the marketing of these loans. Even though consolidation loan marketing states that there is one fee, they never state that initiation fees will be charged on the loan.

Consolidation loans shift the debt repayment into the future, which may be a risky move for unwitting consumers. The use of consolidation loans to settle credit cards and store accounts increases the risks of consumers making use of more credit cards and store accounts. This was reported in the researcher’s sample, where consumers ended up having to pay the new loan and the credit card.

Consolidation loan marketing fosters consumer fixations on the idea of getting one loan. As a result, consumers may not seek alternative solutions. The rejection of consolidation loans results in shame, anger and anxiety, which are detrimental to consumers' well-being. Consolidation loans represent a barrier to financial rehabilitation in South Africa, where consumers may not accept the fact that they need to restructure their debts under the debt review process. Instead, this may waste their time while account balances are increasing. In Chapter 5, I concluded that consolidation loans are not a debt solution.

### 6.3.4 Overarching question: How does the use of consolidation loans exacerbate the over-indebtedness of the users of consolidation loans?

To answer how consolidation loans exacerbate household over-indebtedness, the three sub-questions drew together the literature and conceptual frameworks on household debt. Long-term borrowing means consumers are faced with paying high-interest rates over a long period of time. The fixation on consolidation loans offers consumers hope and the drive to keep changing the search criteria and changing websites. Long-term loans were found to affect consumers' affordability over a longer period, which created a gap that is filled by microlenders, including payday loans and loan sharks. These practices result in higher debt-servicing ratios. In this respect, consumers were found to be subjected to a never-ending borrowing cycle where they work to pay debts and borrow to survive.

Over-indebtedness affects household wellbeing in that it leaves households sacrificing their standard of living to meet debt repayments. This research found that over-indebtedness cannot only be defined in objective terms. There is over-indebtedness of the mind that is created by the subjectivities that are maintained by debt. The case of consolidation loans illustrated how consumers subjectively believe that a consolidation loan is a debt solution rather than a loan. The shifting of risks between credit providers by borrowing from one credit provider to pay another leaves the overall risk with the individuals and their families. Debt reduces the ability to save, which affects the well-being of future generations. This is a serious concern for household livelihoods and sustainable development.

## 6.4 CONCLUSION

This research aimed at investigating the effectiveness of consolidation loans to mitigate household over-indebtedness in South Africa. Based on a mixed-method research methodology it can be concluded that consolidation loans increase rather than reduce over-indebtedness as the debt accumulated by households is not used for consumption or development. The results show that the increase in unsecured lending in South Africa is driven by consolidation loans. As a result, an increase in household debts without stimulating consumption and investment does not promote economic growth. I conclude that if this practice continues, inequalities, poverty and financial exclusion will worsen household socio-economic conditions and conflict is inevitable.

Legislative reforms are required to target consolidation loan marketing, going beyond just concern with reckless lending and focus on improving consumers' knowledge on the available debt solutions, such as debt review. This research clearly illustrates that consumers with an income of R15 000 or more per month are becoming over-indebted and are highly dependent on consolidation loans as a debt solution. These are consumers that have a formal or tertiary education qualification. This raised a question about the role of institutions such as universities and employers in shaping consumers' borrowing behaviour. Based on these conclusions, there is a serious need for legislative reforms to move beyond outlawing reckless lending to include outlawing of predatory lending. To better understand the results of this research, future studies should consider the role of household over-indebtedness in shaping the political-economic landscape in South Africa.

This research is the first to challenge the notion of consolidation loans by answering the question of how consolidation loans exacerbate over-indebtedness of consolidation loan users. The literature on household over-indebtedness in South Africa tends to relate household over-indebtedness to poverty drivers. This research fills the gap in knowledge by identifying the subjective individual created by debt, "the indebted man". By assuming that poverty drives over-indebtedness and to assume that improving access to high-paying jobs will solve the South African socio-economic challenges miss the effects of debt on the subjectivities of educated employed people. The researcher's findings confirm that it is the employed who fall prey to the credit providers' consolidation loan marketing. These conclusions were drawn from three aspects of consolidation loans: marketing, practices, and downsides.

### 6.4.1 Consolidation loan marketing

The research traced the role of consolidation loan marketing in shaping consumer perspectives and their search for consolidation loans. It was concluded that consolidation loan marketing by financial institutions is misleading and drives precarious consumer behaviour. The results indicated that financial institutions over-emphasise the benefits of consolidation loans and downplay the downside of such loans. Low-interest rates, one service fees, hassle-free debt settlement, improving cash flow and cleaning up credit reports were stated by all credit providers on their websites. The research highlighted the inconsistency in credit providers' consolidation loan marketing messages, which raises the question of the role of the NCR in the marketing of debt solutions by financial institutions.

### 6.4.2 Consolidation loan practices

I found the term "consolidation loan" problematic in that most credit providers do not list these loans as consolidation loans on credit bureaus. This inquiry was set to define consolidation loans and their practices. Based on the engagement with consumers, analysing credit reports and credit provider websites, it was concluded that there are several practices of consolidation loans, including loan top-ups, Advance Accounts from Standard Bank, Credit Switch from FNB, large unsecured loans from Capitec, Bayport and African Bank. This illustrated that there is no single practice of consolidation loans, instead, consolidation loans are loans used to pay other loans. The conclusions on consolidation loan practices are that consumers seeking consolidation loans may have consolidated before using personal loans. Based on this conclusion, the NCR should consider protecting consumers from the use of credit to pay credit.

### 6.4.3 The downside of consolidation loans

To understand the downside of consolidation loans, this research used credit sub-sectors in South Africa to locate the classification of consolidation loans as unsecured credit agreements. Based on quantitative analysis, the costs of consolidation loans contradicted the interest rates stated in consolidation loan marketing messages. It was concluded that the downsides of consolidation loans included higher interest rates than store accounts, overdrafts, and credit cards. This indicated that the use of consolidation loans to settle lower interest rate accounts will increase the costs of credit over time. There are several time aspects of consolidation loans that were highlighted, including the duration of loan repayment, the time taken to search for the loan, the effects of loans rejections and time lost by consumers.

## 6.5 RECOMMENDATIONS

Based on the conclusions drawn in this chapter, in this section, I provide recommendations and areas of further research. The focus of this research was to understand how consolidation loans exacerbate over-indebtedness of consolidation loan users. The researcher's recommendations include debt literacy programmes, improving household budgeting and the outlawing of predatory lending.

### 6.5.1 Debt literacy programme

Low levels of debt and financial literacy drive precariousness globally. Responses to consolidation loan marketing findings illustrated the desire to escape the debt cycle. Basic financial numeracy fails to combat the effects created by the increased complexity of financial products. Investment in debt literacy programmes may improve consumers' financial well-being. A loan plus lender debt literacy programme will improve consumer's responses to consolidation loan marketing. A successful debt literacy programme equips consumers with basic mathematical principles on compound interest, loan terms, financial products, and credit provider practices.

Debt literacy programmes should target improving financial knowledge that prepares consumers to correctly assess debt contracts. This research problematised the appropriateness of credit in relation to the use of credit to pay credit. Debt literacy programmes should shape the consumers' understanding of credit sub-sectors to avoid the use of high-cost- credit, for instance, to avoid the use of personal loans to buy vehicles. This approach will mitigate the costs of ignorance experienced by consumers in South Africa.

This research maintains that institutions such as universities should not be viewed as just generators of a workforce, but also equip a workforce that can actively participate in economic activities. This should include equipping students with debt knowledge, the existence of the NCA and the available debt solutions. Given that consolidation loan seekers are relatively higher-income earners, the role of the employer and corporate social responsibility should not be overlooked. Employers are not doing enough to mitigate household over-indebtedness and improve the wellbeing of their employees. Including the subject of debts in employee wellness programmes will improve consumers' engagement with debt solutions. Other institutions where debt literacy should be implemented include political, religious, and financial institutions.

### 6.5.2 Household budgeting

The role of institutions to improve consumer financial well-being requires basic financial practices, including budgeting and household financial monitoring. The personal assessment was lacking in the sample used. Consumers had a low appreciation of their financial position, which was driven by low budgeting abilities. In some cases, consumers did not understand the need for drawing up a household budget. Instead, they were interested in knowing whether they qualify for a consolidation loan or not. Household budgeting assists consumers in managing their financial resources. These include a personal assessment of the affordability of additional credit or monitoring consumption.

Programmes in household budgeting should include basics such as understanding what constitutes income and expenditure. Forty per cent of the researcher's participants referred to their gross income when asked what their income was. One could argue that consumers are making decisions based on their gross salaries, which are subject to statutory deductions such as pay as you earn, unemployment insurance funds and pension deduction. A low appreciation of the cost of living was observed where consumers may understate their cost of living to access credit. This practice results in subjective over-indebtedness where consumers sacrifice their standard of living to meet their debt repayments. Improved budgeting skills assist consumers in managing their resources over their life cycle. It improves the consumer's ability to manage and monitor saving and borrowing whenever necessary.

### 6.5.3 Outlawing predatory lending

The outlawing of predatory lending should complement reckless lending if consumers are to be protected from profit-driven credit providers. Restricting reckless lending alone does not protect consumers; instead, it justifies consolidation loan practices, y*et al*l this proves to be predatory. The attempt to foster responsible lending should not be achieved at the expense of consumer wellbeing. Instead, it should extend to penalising creditors who are drawing more and more people into the debt net. The research confirmed a wide range of consolidation loan practices in South Africa, all of which are resulting in debt distress. This has seen many reporting that they were offered bigger loans than what they were seeking, resulting in higher instalments and longer terms. The challenge in defining predatory lending stated in literature can be simplified by considering consolidation loans as an example of such lending, which requires the NCR to investigate the role of consolidation loans. Outlawing these kinds of loans and practices will force consumers to take corrective measures rather than fixating on the idea of consolidation loans.

## 6.6 AREAS OF FURTHER RESEARCH

The application of a mixed-method research methodology allowed me to engage the wicked problem of household over-indebtedness and its perpetuation. The political economy literature included Birth of Biopolitics by Foucault (2008), The Making of the Indebted Man by Lazzarato (2014), Neoliberalism by Springer (2016), and Debt as Power by Di Muzzio and Robbins (Di Muzio and Robbins, 2016), raising new questions for further research. These questions resonate with the researcher’s research in seeking the role of debt in silencing the masses and creating a governable population. The idea of financial inclusion is questioned by Soederberg in the Debtfare States and Poverty Industry (Soederberg, 2014). I found literature in South Africa to be focusing on poverty-driven household over-indebtedness, which ignores the role of debt as a political tool to create a set of subjectivities. The politicization of debt in South Africa and elsewhere remains a phenomenon that needs to be explored. With that in mind, I pose the following questions for future research:

i. How does household debt replace the oppressive elements of the apartheid system as a new way of controlling the masses?

ii. Do over-indebted consumers relate to the promise of independence in 1994?
iii. Is there a possibility of a just South Africa in the face of inequalities perpetuated by household debt?
iv. Is there a way out of these unsustainable debt structures before reaching environmental and social thresholds?

In the face of a booming credit market system, a deteriorating socio-economic environment was observed. I argue that the effects of debt may continue to increase the levels of inequality. The difference between owners and debtors is likely to increase should there be no necessary steps taken to mitigate the effects of household over-indebtedness. With more than 5 years' experience in debt management, there is an interrelationship between the financial and symbolic debt of the past. Household over-indebtedness in South Africa can be understood from the debt of the past which shapes the engagement of the middle class with the credit market. The research argues that the South African credit market system is shaped by predatory lending which is justified by stationary aspects of credit regulation in the country. One such stationary approach is the application of the reckless lending rule as and regulations. Consolidation loans marketing is continuing unabated, creating a precarious credit environment. This leaves the credit market system vulnerable to systemic distress.

The precarity of consolidation loans together with the existence of the indebted man has implications to the effects of household over-indebtedness. While the world grapple with environmental and social issues, the attention being paid towards household over-indebtedness questions the seriousness of the subject in shaping a just and sustainable future. Consolidation loans marketing challenges consumers perspectives on debt solutions such as debt review, administration and sequestration. The discussion on structural indebtedness in Section 3.4, intertemporal choices in Section 3.3.4 and perceived debt repayment efforts over time in Section 3.3.3 combine to illustrate the moral logic of debt repayment informed by theoretical frameworks such as discounted utility. It is conclusive that the credit market uses consumer behaviours to drive profits. The research consistently reminds the readers that consolidation loans are not fit for mitigating household over-indebtedness. Risk compensation and moral hazards discussed in Section 4.32 highlight the effects of perceived debt solutions. The conflicting perceptions over the use of consolidation loans exist between credit providers and consumers which creates a perfect predatory lending environment. Until there are sufficient legislative frameworks to monitor predatory lending, consolidation loans are likely to dominate and draw more consumers into a long-term debt net. One that will result in the financial exclusion of many households which affects property ownership.

A sustainable credit market system is required to improve the role of the credit market system in development than exclusion. Sustainability should be seen in the way debt is accumulated and paid back. Section 3.2.2 used the LCH and PIH to demonstrate that financial stress is part of a household or individual life journey. Even in a tightly managed credit market system, individuals and households are likely to face financial stress in their lifetime. Any envisioned debt solutions must minimize credit providers risks while improving the well-being of individuals and households. Consolidation loans have failed to achieve this, instead, they result in more debts, increased risks, long-term financial exclusion and a fixation on the idea that challenges debt rehabilitation in South Africa. It, therefore, follows that the understanding of household over-indebtedness should go beyond financial over-indebtedness, to question the political notion of household over-indebtedness from a governmentality perspective. Without this logic, solving South Africa's triple challenge of poverty, inequality and unemployment remains a distant memory.

Debt reshapes systemic poverty inequality and erodes the participation of the middle-class in the nation's economic activities. Using consolidation loans, I demonstrated the non-consumptive use of credit that does not drive consumption and economic growth but gives a false picture of the credit market. The number of credit active consumers remains the same while credit on creditors' books is increasing. Systemic inequalities increase as the middle-class faces strict conditions to qualify for property and vehicles, leaving them with no choice but to utilize high cost unsecured credit. Increasing employment and incomes of employees will only mean more business for the credit providers than overall improvement in the well-being of the society. I side with Lazzarato (2012) in his analysis of the indebted man, where he argues that debt leaves no difference between the employed and the unemployed, also stating that debt has become infinity instead of being satisfied. Through consolidation loans, this trend is likely to continue for generations.

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# Appendices

## Appendix A: Consumer Assessments

Apart from being your financial consultant, I am a student and the University of Stellenbosch researching on the appropriateness of consolidation loans to mitigate household over-indebtedness. To improve the effectiveness of debt solutions, this research seeks to inform consumers on consolidation loans. I am seeking your consent to use your financial assessment as part of the 50 assessments that I am analysing. This participation is voluntary and should you not want me to use the analysis towards my research analysis, feel free to inform me can state. Also note that you may choose to withdraw at any point in time. All completed assessments and analysis will be emailed to you for your records and reference. All your information is protected under the POPI Act that ensures that no names or Identity numbers will be published in any written document. Note that participation in the research does not compromise you in anyway. I kindly request your consent to record your assessment results and for you to participate in the assessment with the best of your ability. Should there be any information useful in the assessment that you may want to share, please feel free.

| **Consumer Financial Assessments** | | |
|---|---|---|
| **Part A: Respondent Information** | | |
| **A1** Respondent Name | **A2** Reason for Inquiry | **A3** Source of Inquiry |
| | | |
| **A4:** What is the main reason for seeking a consolidation loan? | | |
| **A5:** Have you ever used a consolidation loan before? If yes, did it help you? | | |
| **A6:** How long have you been looking for a consolidation loan | | |
| **A7:** What is your understanding consolidation loan? | | |

| | |
|---|---|
| **Part B: Demographics** | |
| **B1.** Gender (Male =1, Female =2) | |
| **B2:** Assessment Type (Single (S) = Never-married, ANC, Divorced, Widowed and Joint (J) = COP) | |
| **B3:** Number of Financial Dependents | |
| **B4:** Race (Black = B, White = W, Coloured = C, Indian/Asian =I) | |

| Part C: Income and Expenses (R) | |
|---|---|
| **C1:** Net Income = Income after Statutory deductions (Tax, UIF, Pension, Medical Aid) | |
| **C2:** Other Income (Rental income, additional job, dividends, others) | |
| **C3:** Home and Vehicle (Rent, water, rates, electricity, levies, traveling costs, security, gardening, domestic worker) | |
| **C4:** Day-to-Day (Groceries, clothing, communication, DSTV, Bank Charges) | |
| **C5:** Children (School fees, aftercare, crèche, child maintenance) | |
| **C6:** Insurances and Investments (Life cover, vehicle insurance, funeral cover, household insurance, retirement annuity) | |
| **C7:** Other Expenses (Medical Aid, contingency, entertainment, parental support, others) | |
| | |

# Part D: Credit Report Information

Credit Report Summary

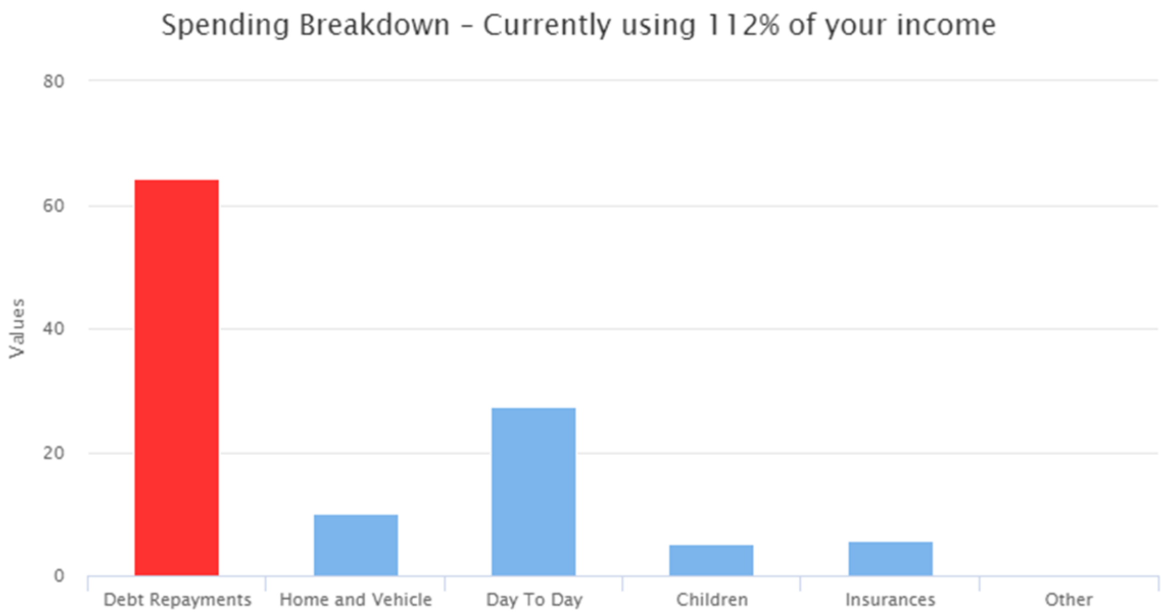
| Account Type | Total Accounts | Open Accounts | Accouns in Arrears | Monthly Payment of Open Accounts | Total Current Balance |
|---|---|---|---|---|---|
| Total (DC Eligible) | - | - | - | R_ | R_ |
| Bond | - | - | - | - | - |
| Vehicle Finance | - | - | - | - | - |
| Personal Loan | - | - | - | - | - |
| Credit Card | - | - | - | - | - |
| Micro Loans | - | - | - | - | - |
| Retail Accounts | - | - | - | - | - |
| Overdraft | - | - | - | - | - |

## Part E: Consumer Financial Health

Your current Financial Health

| Monthly Snapshot | |
|---|---|
| Total Income | R |
| Total Expenses | R |
| Total Debt Repayments | R |
| Income-Debt-Expenses | +/-R |

## Part F: Consumer Spending Breakdown



# Appendix B: Debt Literacy and Consolidation Experience

| Debt Literacy and Consolidation Experience | |
|---|---|
| **Part A: Consolidation Loan experience** | |
| **A1:** In the past one year have you ever paid a loan using a loan? | **Yes/ No** |
| **A2:** If yes, did it work, if no, do you think debt can pay debt? | **Yes/ No** |
| **A3:** What is the average interest rate of your current debts? | **……. …….. …….** |
| **A4:** Do you understand what category of credit does a consolidation loan fall under? | **……. …….. …….** |
| | |
| **Part B: Consumer Traits** | |
| **B1.** Succumbs to lifestyle pressure | |
| **B2:** Realistic about current financial position | |
| **B3:** Unrealistic about current financial position | |
| **B4:** Curious to know more about personal finance | |
| **B5:** Seeking quick fixes and in denial | |
| | |